

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

In the Matter of the :  
Commission Review of the :  
Capacity Charges of Ohio : Case No. 10-2929-EL-UNC  
Power Company and Columbus:  
Southern Power Company. :

- - -

PROCEEDINGS

before Ms. Greta See and Ms. Sarah Parrot, Attorney  
Examiners, and Commissioner Andre Porter, at the  
Public Utilities Commission of Ohio, 180 East Broad  
Street, Room 11-A, Columbus, Ohio, called at 10:00  
a.m. on Tuesday, April 17, 2012.

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VOLUME I

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On behalf of the Ohio Power Company and  
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On behalf of the FirstEnergy Service  
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APPEARANCES: (Continued)

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On behalf of the Industrial Energy Users  
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On behalf of the Interstate Gas Supply,  
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Duke Energy Ohio, Inc.  
By Ms. Amy B. Spiller  
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On behalf of the Duke Retail Sales and  
Duke Energy Commercial Asset Management.

Vorys, Sater, Seymour & Pease, LLP  
By Mr. Howard M. Petricoff  
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On behalf of the Exelon Generation  
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Inc., Retail Energy Supply Association,  
Direct Energy Services, and Direct Energy  
Business, LLC.

APPEARANCES: (Continued)

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On behalf of the Residential Customers of  
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Taft, Stettinius & Hollister  
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On behalf of the Kroger Company.

Boehm, Kurtz & Lowry  
By Mr. Michael L. Kurtz  
36 East Seventh Street, Suite 1510  
Cincinnati, Ohio 45202

On behalf of the Ohio Energy Group, Inc.

Bricker & Eckler, LLP  
By Mr. Thomas O'Brien  
100 South Third Street  
Columbus, Ohio 43215-4291

Ohio Hospital Association  
By Mr. Richard L. Sites  
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On behalf of the Ohio Hospital  
Association.

Bricker & Eckler, LLP  
By Ms. Lisa Gatchell McAlister  
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On behalf of Ohio Manufacturers  
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APPEARANCES: (Continued)

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of School Administrators, and Ohio Schools  
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Columbus, Ohio 43215

On behalf of Dominion Retail, Inc.

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By Mr. Christopher L. Miller  
Mr. Asim Haque  
Mr. Gregory J. Dunn  
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On behalf of the Association of  
Independent Colleges and Universities of  
Ohio and the City of Grove City.

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On behalf of Exelon Generation Company,  
LLC.

APPEARANCES: (Continued)

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By William Wright, Section Chief  
Public Utilities Section  
Mr. Werner L. Margard, III  
Mr. Steven Beeler  
Mr. John Jones  
Assistant Attorneys General  
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On behalf of the staff of the Public  
Utilities Commission of Ohio.

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Tuesday Morning Session,  
April 17, 2012.

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EXAMINER SEE: Let's go on the record.

Scheduled for hearing at this time is  
Case No. 10-2929-EL-UNC, in the Matter of the  
Commission's Review of the Capacity Charge of Ohio  
Power Company and Columbus Southern Power Company.

I am Greta See. On the Bench with me  
this morning is Attorney Examiner Sarah Parrot. And  
to my left Commissioner Andre Porter.

Commissioner Porter.

COMMISSIONER PORTER: Thank you. I'm  
Andre Porter, Public Utilities Commissioner. I will  
be sitting in to observe the evidentiary procedures  
in this proceeding. As stated by the Attorney  
Examiner, they have been appointed and assigned by  
the Commission as the attorney examiners for this  
proceeding. However, in this proceeding, I will  
reserve for myself the ability to question witnesses  
in limited instances where an issue needs to be  
further developed.

Attorney Examiners See and Parrot will be  
responsible for creating the record, including  
responding to the evidentiary and procedural motions

1 made by the parties. I will not respond to motions  
2 and other requests at this proceeding.

3 At the conclusion of the evidentiary  
4 hearing I will join with the other Commissioners in  
5 reviewing the record created here and the recommended  
6 opinion and order of the examiners in order to make  
7 the final decision in this proceeding. Thank you.

8 EXAMINER SEE: Okay. At this time I  
9 would like to take appearances of the parties. Let's  
10 start with the company. On behalf of Ohio Power  
11 Company.

12 MR. NOURSE: Thank you, your Honor. On  
13 behalf of Ohio Power Company, Steven T. Nourse,  
14 Matthew J. Satterwhite, Yazen Alami, One Riverside  
15 Plaza, Columbus, Ohio 43215. And outside counsel  
16 Daniel R. Conway, Christen M. Moore, from Porter,  
17 Wright, Morris & Arthur, 41 South High Street,  
18 Columbus, Ohio 43215.

19 EXAMINER SEE: On behalf of the Ohio  
20 Consumers' Counsel.

21 MS. KERN: Thank you, your Honor. On  
22 behalf of the Ohio Consumers' Counsel, Kyle Kern and  
23 Melissa Yost, 10 West Broad Street, Suite 1800,  
24 Columbus, Ohio 43215.

25 EXAMINER SEE: On behalf of the Ohio

1 Energy Group.

2 MR. KURTZ: Your Honors, for the Ohio  
3 Energy Group, Mike Kurtz, law firm Boehm, Kurtz and  
4 Lowery, 1510 URS Center, Cincinnati, Ohio.

5 EXAMINER SEE: On behalf of the  
6 Industrial Energy Users - Ohio.

7 MR. DARR: Thank you, your Honor. On  
8 behalf of IEU-Ohio, Samuel Randazzo and Frank Darr,  
9 McNeese, Wallace & Nurik, 21 East State Street,  
10 Columbus, Ohio 43215.

11 EXAMINER SEE: On behalf of the Ohio  
12 Partners for Affordable Energy.

13 (No response.)

14 EXAMINER SEE: On behalf of the Ohio  
15 Manufacturers Association.

16 MS. McALISTER: Thank you, your Honor.  
17 On behalf of the Ohio Manufacturers Association, Lisa  
18 McAlister with Bricker & Eckler, 100 South Third  
19 Street, Columbus, Ohio 43215.

20 EXAMINER SEE: On behalf of the Ohio  
21 Hospital Association.

22 MR. O'BRIEN: Thank you, your Honor. On  
23 behalf of the Ohio Hospital Association, Richard L.  
24 Sites, 155 East Broad Street, Columbus, Ohio 43215,  
25 and Bricker & Eckler LLP, by Thomas J. O'Brien, 100

1 South Third Street, Columbus, Ohio 43215. Thank you.

2 EXAMINER SEE: On behalf of Direct Energy  
3 Services and Direct Energy Business, LLC.

4 MR. PETRICOFF: Thank you, your Honor.  
5 On behalf of the Direct Energy and Direct Energy  
6 Business, M. Howard Petricoff and Lija Kaleps-Clark,  
7 Vorys, Sater, Seymour and Pease, 52 East Gay Street,  
8 Columbus, Ohio.

9 EXAMINER SEE: On behalf of Constellation  
10 NewEnergy and Constellation Energy Commodities Group.

11 MR. PETRICOFF: Yes, your Honor. On  
12 behalf of Constellation Energy Commodities Group and  
13 Constellation NewEnergy, M. Howard Petricoff and Lija  
14 Kaleps-Clark, Vorys, Sater, Seymour and Pease.

15 EXAMINER SEE: On behalf of the Retail  
16 Energy Supply Association.

17 MR. PETRICOFF: Yes, your Honor. Once  
18 again, M. Howard Petricoff and Lija Kaleps-Clark from  
19 the law firm of Vorys, Sater, Seymour and Pease.

20 EXAMINER SEE: Okay. On behalf of  
21 FirstEnergy Solutions.

22 MR. HAYDEN: Thank you, your Honor. On  
23 behalf of FirstEnergy Solutions, Mark Hayden. Also  
24 with me from the law firm of Calfee, Halter &  
25 Griswold, Jim Lang, Laura McBride, and Trevor

1 Alexander. From the law firm of Jones Day, David  
2 Kutik and Allison Haedt.

3 EXAMINER SEE: On behalf of Duke Energy  
4 Retail Sales, LLC.

5 MS. KINGERY: Thank you, your Honor.  
6 Jeanne W. Kingery and Amy B Spiller, 139 East Fourth  
7 Street, Cincinnati, Ohio 45202.

8 EXAMINER SEE: On behalf of Exelon  
9 Generation Company.

10 MR. PETRICOFF: Yes, your Honor. On  
11 behalf of the Exelon Generation, M. Howard Petricoff  
12 and Lija Kaleps-Clark from the law firm of Vorys,  
13 Sater, Seymour and Pease, and also Sandy Grace and  
14 David Stahl who are in-house counsel for Exelon.

15 EXAMINER SEE: On behalf of Interstate  
16 Gas Supply.

17 MR. CAMPBELL: Thank you. Andrew John  
18 Campbell and Melissa Thompson, Whitt Sturtevant, LLP,  
19 PNC Plaza, 155 East Broad Street, Columbus, Ohio  
20 43215, and Matt White is in-house counsel.

21 EXAMINER SEE: On behalf of the Ohio  
22 Association of School Business Officials, Ohio School  
23 Boards Association, Buckeye Association of School  
24 Administrators, and Ohio Schools Council.

25 MR. STINSON: Thank you, your Honor. On

1   behalf of the Ohio Association of School Business  
2   Officials, Ohio School Boards Association, Buckeye  
3   Association of School Administrators, and Ohio  
4   Schools Council, Dane Stinson, Bailey Cavalieri, 10  
5   West Broad Street, Suite 2100, Columbus, Ohio 43215.

6               EXAMINER SEE: On behalf of the Ohio Farm  
7   Bureau Federation.

8               (No response.)

9               EXAMINER SEE: On behalf of Duke Energy  
10   Commercial Asset Management.

11              MS. KINGERY: Thank you, your Honor.  
12   Jeanne W. Kingery and Amy B. Spiller, 139 East Fourth  
13   Street, Cincinnati, Ohio 45202.

14              EXAMINER SEE: On behalf of the Kroger  
15   Company.

16              MR. YURICK: Good morning, your Honors.  
17   On behalf the Kroger Company, Mark Yurick, Taft  
18   Stettinius & Hollister, 65 East State Street, Suite  
19   1000, Columbus, Ohio 43215.

20              Commissioner Porter, it's an unexpected  
21   pleasure to see you this morning.

22              EXAMINER SEE: On behalf of the National  
23   Federation of Independent Businesses, Ohio Chapter.

24              MR. SUGARMAN: Good morning, your Honor,  
25   Roger Sugarman, Kegler, Brown, Hill & Ritter, 65 East

1 State Street, Suite 1800, Columbus, Ohio 43215.

2 EXAMINER SEE: On behalf of Dominion  
3 Retail Incorporated.

4 MR. ROYER: Thank you, your Honor, Barth  
5 Royer, Bell & Royer Co., LLP, 33 South Grant Avenue,  
6 Columbus, Ohio 43215.

7 EXAMINER SEE: On behalf of the  
8 Association of Independent Colleges and Universities  
9 in Ohio.

10 MR. MILLER: Thank you, your Honor. On  
11 behalf of the Association of Independent Colleges and  
12 Universities of Ohio, Christopher L. Miller, Asim  
13 Haque, Gregory J. Dunn Ice Miller, LLP, 250 West  
14 Street, Columbus, Ohio 43215.

15 EXAMINER SEE: On behalf of the City of  
16 the Grove City.

17 MR. HAQUE: Good morning, your Honor.  
18 Asim Haque, Christopher L. Miller, Gregory J. Dunn,  
19 Ice Miller, LLP, 250 West Street, Columbus, Ohio  
20 43215.

21 EXAMINER SEE: And on behalf of the  
22 Construction Materials Coalition.

23 (No response.)

24 EXAMINER SEE: Okay. Let's address some  
25 of the issues that were raised at the prehearing

1 conference. There was concern --

2 MR. JONES: Your Honor, may I intervene?

3 I didn't get a chance to make an appearance.

4 EXAMINER SEE: I forgot the staff, sorry  
5 about that.

6 MR. JONES: On behalf of the staff of the  
7 Public Utilities Commission of Ohio, Attorney General  
8 Mike DeWine, Assistant Attorneys General Steve  
9 Beeler, John Jones, 180 East Broad Street, Columbus,  
10 Ohio. Thank you.

11 EXAMINER SEE: How could I ever forget  
12 staff, Mr. Jones.

13 Let's address some of the issues that  
14 were raised during the prehearing conference. There  
15 was some -- there was a request first as to how to  
16 number the exhibits. We would request that you start  
17 all exhibits with 100, so that they are not confused  
18 with the exhibits that were previously admitted as  
19 part of the consolidated proceeding.

20 There was a question by counsel for the  
21 Ohio Consumers' Counsel regarding being in the room  
22 when OMA's witnesses are offering testimony. We'll  
23 take up that issue just before your witnesses begin  
24 to testify.

25 MS. McALISTER: Thank you, your Honor.



1 EXAMINER SEE: There was also an issue  
2 raised about exhibits that had previously been  
3 admitted into the record as part of the consolidated  
4 proceeding. We'll take that issue up as request for  
5 admission of the exhibit is made and determine at  
6 that time whether the exhibit is admissible.

7 We recognize that there are a number of  
8 motions outstanding. Among them IEU's motion to  
9 dismiss. We will defer ruling on that motion at this  
10 time and proceed with the hearing.

11 AEP Ohio has a motion to strike and  
12 included in that motion are -- is the motion to  
13 strike the testimony -- various portions of testimony  
14 of four witnesses and all of the testimony of IGS  
15 Witness Parisi. We'll address those motions to  
16 strike just before that witness offers testimony  
17 because at this time the only party that has replied  
18 to AEP's motion to strike is IGS.

19 But as to Mr. Parisi, the motion to  
20 strike his testimony is granted. The Bench finds  
21 that it is more appropriately discussed in another  
22 proceeding.

23 MR. NOURSE: Thank you, your Honor.  
24 Could I clarify -- I don't mean to interrupt, but if  
25 you are going on to the next item.

1 EXAMINER SEE: I'm about to.

2 MR. NOURSE: I want to go back to the  
3 prior item about entering exhibits into the record  
4 from the prior proceeding. Just to clarify what you  
5 said, as I understand it, you're saying if someone  
6 wants to bring in a part of the record either as an  
7 exhibit from the prior proceeding or a discovery  
8 response, they'll be raising it during cross or  
9 during testimony and then you'll -- you'll hear  
10 arguments and then rule at that time; is that  
11 correct?

12 EXAMINER SEE: Yes.

13 MR. NOURSE: Okay. Thank you.

14 EXAMINER SEE: We'll take them  
15 individually, and you'll have to raise them as part  
16 of your cross-examination or your testimony.

17 Is everyone clear on Mr. Parisi's  
18 testimony? Okay.

19 On to the two motions pro hac vice of  
20 Mr. Stahl and Ms. Grace. The motion to admit  
21 Mr. Stahl is granted. We note that Ms. Grace was  
22 previously admitted entry to participate in this  
23 proceeding by entry issued August 11, 2011. So we  
24 will continue to honor that approval in this  
25 proceeding at this time.

1           As for AEP's motions to compel various  
2       discovery requests of FirstEnergy Solutions and  
3       Exelon, the Bench will take that matter up at a later  
4       time after we've had some additional time to review  
5       the motions that have come in in the past 24 hours.

6           Are there any other outstanding matters  
7       that need to be taken up at this time?

8           MR. SATTERWHITE: At this time may I  
9       mention what was mentioned off the record, an oral  
10      motion to compel as well from discovery received or  
11      not received last night? I can file it later in the  
12      day, if that's easier for you, but.

13          EXAMINER SEE: Please file it later in  
14      the day.

15          MR. SATTERWHITE: All right. And we  
16      would just ask, I perfectly understand you want to  
17      see everything written, company just reserves their  
18      right to file more on this matter as the scope of  
19      what is determined and whether we receive or don't  
20      receive on this abbreviated time schedule is  
21      important for when we cross-examine the other  
22      witnesses, so we would appreciate any discretion you  
23      can show.

24          EXAMINER SEE: Thank you,  
25      Mr. Satterwhite.

1 Mr. Petricoff.

2 MR. PETRICOFF: Yes, your Honor. If I  
3 could explore that for just a moment in responding.  
4 We were served with a motion to compel at 8:30 this  
5 morning. Normally even on an expedited basis that  
6 would, you know, take us out a week.

7 We believe we can probably have a written  
8 response in about two days, and we will do our best  
9 to do that, and I just wanted to secure from the  
10 Bench an indication whether two days would be  
11 sufficient time for us to -- whether we have at least  
12 two days to respond.

13 MR. SATTERWHITE: All I would add, your  
14 Honor, I think as I mentioned earlier, the decision  
15 about whether things are relevant or not relevant in  
16 this case as some of the intervenors have stated in  
17 their testimony really defines the scope of the  
18 entire case even the witnesses that AEP puts up and  
19 the questions and objections we may make, so we are  
20 all under a tight timeframe.

21 I would appreciate you get to me as soon  
22 as you can, but the company would appreciate for the  
23 sake of the record, overall record, to get a ruling  
24 as soon as possible. Thank you.

25 EXAMINER SEE: Mr. Darr.

1 MR. DARR: Thank you, ma'am. Just one  
2 thing with regard to the motion to dismiss. At this  
3 point you have in front of you a motion to dismiss  
4 that -- pardon me, I'll try to keep my voice up.

5 You have in front of you a motion to  
6 dismiss for which there is no full opposition. If  
7 you take a look at the response by the companies at  
8 this point, they are in partial opposition which  
9 means they are also in partial agreement that this  
10 case should not go forward before this Commission.

11 There are no other parties that have  
12 asked this Commission to dispose on -- to dismiss the  
13 motion of IEU unfavorably. Under these circumstances  
14 it would appear that you have an unopposed motion in  
15 front of you.

16 Now, they -- AEP does not like the  
17 grounds that we have raised, but they have in effect  
18 in the alternative put in front of you that there is  
19 a jurisdictional problem due to preemptings and, in  
20 fact, some of their testimony supports that, I  
21 believe, included in their first witness,  
22 Mr. Munczinski.

23 I guess the question for the Bench at  
24 this point is whether or not this exercise needs to  
25 go any further given that you have in effect an

1 unopposed motion to dismiss before the Commission.

2 Thank you, your Honor.

3 EXAMINER SEE: Thank you.

4 Mr. Petricoff.

5 MR. PETRICOFF: I think, unfortunately,  
6 Mr. Darr may be premature. There is one more day  
7 left to respond to that motion, but I believe there  
8 will be opposition coming in.

9 MR. NOURSE: I would also add, your  
10 Honor, again, I think the company said what it  
11 intended to say in its filing. It's not fair to  
12 characterize that as -- as agreeing with IEU's  
13 motion. It was a memo in partial opposition, so I  
14 won't add anything further to what was said, but it's  
15 not an unopposed motion at this point.

16 EXAMINER SEE: Okay. The Bench  
17 recognizes the arguments of IEU and the claims of  
18 Mr. Petricoff that there will be further issues  
19 raised in regard to the motion to dismiss. I will  
20 certainly allow the opportunity -- the parties the  
21 opportunity to file that information, and we'll take  
22 this up again at some other point. We are going to  
23 commence the proceedings on the capacity charges case  
24 today.

25 Is there anything else?

1 Ms. McAlister.

2 MS. McALISTER: Yes, your Honor. The OMA  
3 filed a motion for protection regarding responses to  
4 discovery requests from Ohio Power on the 11th of  
5 April, the morning of the prehearing conference. And  
6 I don't believe that you made a ruling on that one.

7 EXAMINER SEE: Thank you for bringing  
8 that to the Bench's attention, Ms. McAlister. We  
9 won't be ruling on it at this time.

10 MS. McALISTER: Thank you.

11 EXAMINER SEE: But you will get a ruling.  
12 Is there anything else?

13 Okay. Mr. Nourse.

14 MR. NOURSE: Thank you, your Honor. The  
15 company calls Richard Munczinski to the stand.

16 (witness sworn.)

17 EXAMINER SEE: Mr. Nourse.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 - - -

20 RICHARD E. MUNCZINSKI

21 being first duly sworn, as prescribed by law, was  
22 examined and testified as follows.

23 DIRECT EXAMINATION

24 By Mr. Nourse:

25 Q. Mr. Munczinski, can you state your name

1 and your position.

2 A. My name is Richard E. Munczinski, and I  
3 am Senior Vice President of Regulatory Services for  
4 American Electric Power Service Corporation.

5 Q. Thank you. You also answered my next  
6 question. Do you have your prefiled exhibit that  
7 represents your testimony filed in this case?

8 A. I do.

9 Q. And was this testimony prepared by you or  
10 under your direction?

11 A. It was.

12 Q. Do you have some corrections or updates  
13 to make to your testimony this morning?

14 A. Yes, I do.

15 Q. Go ahead and walk us through those.

16 A. Page 4 there is a table 1 at the bottom  
17 of -- very bottom of table 1 under Witness Kelly D.  
18 Pearce the words to the right-hand column "CRES  
19 self-supply option" should be crossed out.

20 And then on page 10, the very bottom of  
21 that page, the last sentence should read "Prior to  
22 2012, CRES providers who served shopping customers  
23 and who chose not to self-supply capacity were  
24 required to pay only the PJM RPM based auction  
25 price."



1                   Those are all the corrections.

2                   Q.     So on that last one, Mr. Munczinski, in  
3     line 21 at page 10 you struck, "however" and inserted  
4     "prior to 2012"?

5                   A.     Correct.

6                   Q.     Correct? And then in line 23 -- excuse  
7     me. In line 22 you changed "choose" to "chose," and  
8     then in line 23 you struck "are currently" and  
9     inserted "were"; is that accurate?

10                  A.     That's accurate.

11                  Q.     Okay. Thank you.

12                   If I were to ask you the questions in  
13     your testimony this morning today under oath, would  
14     your answers be the same?

15                  A.     Yes, they would.

16                   MR. NOURSE: Thank you, your Honor. I  
17     would move for admission of Company Exhibit No. 101  
18     subject to cross-examination.

19                   EXAMINER SEE: Do the parties have a  
20     preference for the order of cross?

21                   MS. YOST: Your Honor, if I may, OCC has  
22     had a change in counsel recently so if OCC could be  
23     towards the end of the line, it would be appreciated.

24                   EXAMINER SEE: Okay. Other than that?  
25     Okay.

1 OEG.

2 MR. KURTZ: Well, your Honor, I should  
3 have spoken up on your last question. I thought that  
4 we had informally discussed -- I thought FirstEnergy  
5 Solutions was going to go first and then perhaps they  
6 may have the most cross.

7 MR. HAYDEN: Your Honor, we are happy to  
8 go first.

9 EXAMINER SEE: Then please do. Go ahead.

10 MR. LANG: That's me, your Honor.

11 EXAMINER SEE: Mr. Lang.

12 MR. LANG: Good morning.

13 - - -

14 CROSS-EXAMINATION

15 By Mr. Lang:

16 Q. Good morning, Mr. Munczinski.

17 A. Good morning.

18 Q. I would like to start at page 5 of your  
19 testimony, please.

20 A. Yes, sir.

21 Q. And this is in response to a request to  
22 describe the history of the capacity charge -- the  
23 capacity charges in this case, correct?

24 A. I'm sorry, could you use the microphone?

25 Q. Yeah, sorry.

1                   On page 5 of your testimony here you are  
2                   describing the history of the capacity charges case,  
3                   correct?

4                   A.     Correct.

5                   Q.     And you describe a process at the Federal  
6                   Energy Regulatory Commission, or FERC, that took  
7                   place prior to 2007, correct?

8                   A.     That's correct.

9                   Q.     And it's fair to say you were not  
10                  involved in that process, correct?

11                  A.     I was not.

12                  Q.     And you were not one of the individuals  
13                  at that time who was expressing concerns over the  
14                  impacts of the RPM capacity market, correct?

15                  A.     Not at that time.

16                  Q.     With regard to section D8 of Schedule 8.1  
17                  of the reliability assurance agreement that you  
18                  reference on page 5, you do not have firsthand  
19                  knowledge of why that provision was drafted, correct?

20                  A.     I do not, and that's why we sponsored  
21                  Witness Horton.

22                  Q.     Now, you are familiar with the AEP East  
23                  pool agreement, correct?

24                  A.     That is correct.

25                  Q.     And, in fact, you are head of the

1 operating committee of the pool?

2 A. That is correct.

3 Q. And you've been head of the operating  
4 committee for approximately two years; is that right?

5 A. That's also correct.

6 Q. What the operating committee does is it  
7 regulates the pool and the procedures and rules  
8 around the pool, correct?

9 A. That's correct.

10 MR. LANG: Your Honors, at this time we  
11 would like to mark, and we will bring up copies for  
12 you, the pool agreement. We'd like to mark it as FES  
13 Exhibit 104. That way we leave room for our  
14 testimony.

15 EXAMINER SEE: Exhibit FES 104 is so  
16 marked.

17 (EXHIBIT MARKED FOR IDENTIFICATION.)

18 Q. (By Mr. Lang) Mr. Munczinski, can you  
19 identify the document FES Exhibit No. 104?

20 A. Yes. It seems that it is the  
21 interconnection agreement between the various East  
22 operating companies of AEP, and it's marked as the  
23 composite copy of that agreement.

24 Q. And as shown on the first page, there  
25 have been many modifications and supplements to this

1 agreement since the -- since the early 1950s,  
2 correct?

3 A. I wouldn't say many. If there's eight or  
4 nine, if I'm counting correctly, over the last 60  
5 somewhat years, I wouldn't call that many  
6 modifications.

7 Q. And the last modification was made in  
8 1980; is that your understanding?

9 A. My recollection is the last modification  
10 was 1980 when Columbus Southern Power was  
11 incorporated into the pool.

12 Q. Now, Article 12 of that agreement is a  
13 provision addressing how -- how the agreement may be  
14 modified by its members; is that correct?

15 A. That's correct.

16 Q. And under Article 12 any member can  
17 request modification of the terms of the pool  
18 agreement with 90 days' notice.

19 A. "A member, by written notice given to the  
20 other members' agent not less than 90 days prior to  
21 the beginning of any calendar year of the duration of  
22 this amendment, may call for reconsideration of the  
23 terms and conditions herein provided."

24 Q. So -- so my question was accurate, any  
25 member can request modification with 90 days' notice?

1           A.    Not less than 90 days prior to the  
2 beginning of the year. I think that's a very  
3 important consideration.

4           Q.    Okay. Now, a request for modification  
5 would be considered by the operating committee; is  
6 that correct?

7           A.    That's correct.

8           Q.    And you are not aware of any documented  
9 criteria that are considered by the operating  
10 committee when a request for modification is made; is  
11 that correct?

12          A.    Not outside of what is written here in  
13 that section.

14          Q.    Okay. So with regard to a  
15 consideration -- with regard to a request for  
16 modification, your understanding is that the  
17 operating committee would review that request  
18 pursuant to the language that's in Article 12?

19          A.    That would be my understanding.

20          Q.    Now, to your knowledge AEP Ohio has not  
21 requested modification of this agreement to take into  
22 account retail shopping in Ohio, correct?

23          A.    We have not taken a modification for what  
24 you just said.

25          Q.    Right. And AEP Ohio has not requested a

1 modification?

2 A. Not that I am aware of.

3 Q. Okay. And since you have been head of  
4 the operating committee for at least the last two  
5 years, if there had been a request made in that last  
6 two years, you would know about it, correct?

7 A. I would.

8 Q. Now, Article 13 of this agreement refers  
9 to the duration of the agreement and also provides  
10 provisions involving the potential termination of the  
11 agreement; is that correct?

12 A. Article 13 recognizes the ability for any  
13 one of the operating companies to terminate the  
14 agreement.

15 Q. And, in fact, all members of the pool  
16 have given notice as required in Article 13 to  
17 terminate the pool agreement, correct?

18 A. All members have given notice I do  
19 believe in December of 2010 to terminate that  
20 agreement.

21 Q. And that notice given in 2010 by its  
22 terms was to be effective January 1, 2014; is that  
23 accurate?

24 A. Correct, because it was at least the  
25 three-year period.

1 Q. And assuming the termination does take  
2 place effective January 1, 2014, after that time the  
3 revenue sharing under the pool agreement will no  
4 longer take place, correct?

5 A. Well, given our termination notice that  
6 the pooling agreement as it now stands will be  
7 terminated, what happens after that period of time is  
8 yet to be determined.

9 Q. Now, AEP Ohio's objective in terminating  
10 the pool and with regard to corporate separation is  
11 that as of January 1, 2014, AEP Ohio will not be  
12 participating in a pool with the other AEP East  
13 members, correct?

14 A. That is our stated objective.

15 Q. Now --

16 MS. YOST: I'm sorry, we are having  
17 difficulty hearing the witness.

18 EXAMINER SEE: Mr. Munczinski, I am going  
19 to need you to speak louder and into the microphone.

20 THE WITNESS: Sorry.

21 EXAMINER SEE: Thank you.

22 Q. Now, on page 9 of your testimony, you  
23 refer to the financial impact of aligning a state  
24 compensation mechanism with the PJM RPM price, and  
25 your belief is that tying the state compensation



1 mechanism to the RPM auction price will undermine  
2 distribution service, correct?

3 A. No. That's not correct.

4 Q. Well, Mr. Munczinski, you had your  
5 deposition taken by me last week; is that correct?

6 A. That's correct.

7 Q. Let's pull that out.

8 MR. LANG: May I approach, your Honor?

9 EXAMINER SEE: Yes.

10 MR. LANG: Thank you.

11 Q. Now, if I could direct you to page 16 of  
12 that deposition transcript and, first, let me ask you  
13 with regard to this -- with regard to your  
14 deposition, this was taken on Tuesday, April 10; is  
15 that correct?

16 A. That's correct.

17 Q. And there was a court reporter there who  
18 was taking down the questions and answers; is that  
19 correct?

20 A. That's correct.

21 Q. And you were under oath in answering the  
22 questions in this deposition; is that correct?

23 A. That's correct.

24 Q. Now, on page 16, I would like to direct  
25 you to the bottom of that page starting at line 24.

1 I asked you a question, it said "So from your answer  
2 is it fair to say it is your belief that tying the  
3 state compensation mechanism to the RPM auction price  
4 would undermine distribution service?"

5 And your answer was, and let me know if I  
6 get this right, your answer was "Since we are a  
7 bundled company, that all services would be  
8 undermined."

9 And I asked you again, question, "So,  
10 yes."

11 And you answered "Yes."

12 That was -- that was your testimony under  
13 oath in deposition, correct?

14 A. Right, correct, but it's more complicated  
15 than that in the sense --

16 Q. Thank you. That was your testimony.

17 MR. NOURSE: Your Honor, could he finish  
18 his response and explanation?

19 MR. LANG: Your Honors, certainly you  
20 were --

21 EXAMINER SEE: The question was posed to  
22 the witness, and if you want to take the matter up,  
23 you will have an opportunity for redirect.

24 MR. LANG: Thank you, your Honor.

25 EXAMINER SEE: Continue.

1           Q.     (By Mr. Lang) Mr. Munczinski, your  
2     opinion that tying the RPM auction price to the --  
3     tying the state compensation mechanism to the auction  
4     price is because AEP Ohio is a bundled company,  
5     correct?

6           A.     I'm sorry, can I have that question read  
7     back.

8           Q.     Yes. AEP Ohio, your opinion is based on  
9     the fact that they are a bundled company, that they  
10    are not separated, correct?

11          A.     I'm sorry. I'm not getting it yet.

12          Q.     I'm sorry?

13          A.     The last part of it but not the whole  
14    question.

15          Q.     Your opinion relates to the fact that AEP  
16    Ohio as it currently operates is a bundled -- what  
17    you refer to as a bundled company, meaning the  
18    generation and distribution are together.

19          A.     Is this on?

20                 My opinion to what though?

21          Q.     Is the mic working?

22          A.     Yes.

23          Q.     I want to move on.

24                 Since you don't know whether AEP -- is it  
25    fair to say that you do not know whether AEP Ohio

1 should be investing in new generation over the next  
2 three years?

3 A. I don't have an opinion on that issue,  
4 that should AEP Ohio invest in new generation without  
5 knowing what the capacity rates will be and what the  
6 ESP rates will be.

7 Q. Now, we've previously discussed --  
8 previously mentioned AEP Ohio's goals for separating  
9 its generation assets as of January 1, 2014. Is it  
10 fair to say -- is it fair to say that, you know, you  
11 cannot imagine a circumstance where AEP Ohio would  
12 invest in new generation prior to January 1, 2014?

13 A. I have no opinion on if Ohio Power -- AEP  
14 Ohio will invest in new generation prior to 2014. I  
15 recognize there's no plan to do that at this point.

16 Q. And you can't think of a reason why they  
17 would during that time period, correct?

18 A. Not with the long position of generation  
19 that we have.

20 Q. Now, following corporate separation, all  
21 generating assets currently owned by AEP Ohio will be  
22 owned by the company called AEP Generation Resources  
23 or by another AEP affiliate; is that correct?

24 A. That is the objective.

25 Q. Now, during the bridge period between

1 corporate separation -- let's assume that happens on  
2 January 1, 2014, and June 1, 2015, so we are talking  
3 about that 17-month period, CRES providers will  
4 continue to be billed by PJM for capacity and PJM  
5 will then remit those payments to AEP Ohio, correct?

6 A. That's the objective.

7 Q. Because during that period prior to  
8 June 1, 2015, AEP Ohio will remain an FRR entity  
9 providing capacity on that basis, correct?

10 A. Oh, it becomes a little more complicated  
11 than that. We are also going to have the  
12 FERC-approved contract between AEP Generation  
13 Resources and the wires company because not only is  
14 the load an FRR entity, the generation is also under  
15 that FRR contract.

16 Q. And as you described it, because the  
17 capacity will be owned by AEP Generation Resources or  
18 potentially another affiliate, there -- there will be  
19 a contract between AEP Ohio or Ohio Power and the  
20 owner of the Generation Resources, correct?

21 A. That's the objective, right.

22 Q. And so when AEP Ohio gets the payment  
23 from PJM, it will then remit that payment to AEP  
24 Generation Resources through the contract that you've  
25 referenced; is that your understanding?

1           A.     That is how we had filed the original  
2     FERC filing of corporate separation.

3           Q.     And is that your understanding today  
4     since that FERC filing?

5           A.     Well, again, that's the objective. We  
6     asked the FERC to suspend the filings so we'll have  
7     to provide you what happens in this proceeding and  
8     the ESP proceeding and decide what to do with the  
9     next FERC filing.

10          Q.     And that -- your understanding is that  
11     that contract between AEP Ohio and AEP Generation  
12     Resources is a contract that will have to be approved  
13     by the FERC.

14          A.     That's my understanding.

15          Q.     Now, AEP Ohio's cost per capacity between  
16     January 1, 2014, and June 1, 2015, during that bridge  
17     period between corporate separation and going to RPM,  
18     AEP Ohio's cost for capacity during that time period  
19     will be its cost to acquire the capacity from AEP  
20     Generation Resources; is that fair?

21          A.     You're oversimplifying what will happen  
22     during that bridge period. Let me try to help you.  
23     During the bridge period, so post-corporate  
24     separation but pre the time that AEP Ohio will be an  
25     RPM entity in PJM, there will need to be a number of

1 contracts and we'll need to know what some of the  
2 outstanding issues in this case plus the ESP case,  
3 how they get resolved. One being, you know, will  
4 there be auctions and, you know, or will there just  
5 be an SSO load that AEP generation will have to  
6 supply.

7 So it's nice to have this hypothetical  
8 discussion, but I'm not sure if I can answer all your  
9 questions without understanding either what the FERC  
10 or this Commission will rule in those two cases.

11 Q. And if I would suggest maybe for the  
12 benefit of the folks in the room, I've noticed the  
13 microphone is a little off to the side so that when  
14 you are looking at me it's not picking up your voice.  
15 If you could maybe move it in between the two of us,  
16 it might work for the room. Thanks.

17 Now, your testimony in this case is about  
18 capacity pricing really for the next three PJM  
19 planning years through June 1, 2015, correct?

20 A. Correct.

21 Q. So during that bridge period between  
22 corporate separation and June 1, 2015, is it possible  
23 that AEP Ohio's cost for capacity could be its cost  
24 to acquire capacity from an entity other than AEP  
25 Generation Resources?

1           A.     Well, once again, AEP Ohio is a member of  
2 both the interconnection agreement that you talked  
3 about -- remember that we are a member of that  
4 contract group. We also have a contract with the PJM  
5 under the FRR agreement. Those two contracts are  
6 very specific. And we have to abide by those  
7 contract terms, so the answer to your question is we  
8 don't have a need to bring in another capacity.

9           Q.     Now, again, the bridge period that we're  
10 talking about is following corporate separation,  
11 following termination of the pool agreement.

12          A.     Right.

13          Q.     If those happen during this three-year  
14 period that we are talking about capacity pricing,  
15 I'm just trying to find out what your understanding  
16 is as to what AEP -- AEP Ohio's capacity costs will  
17 be following corporate separation, following pool  
18 termination, but before June 1, 2015.

19                 So during that time period, that bridge  
20 period, is it your understanding that AEP Ohio -- or  
21 at least AEP Ohio's objective is to satisfy its  
22 capacity requirements solely with a contract from AEP  
23 Generation Resources?

24          A.     Our objective is to maintain the terms of  
25 the contract that we have with PJM under the -- under



1 the FRR option which requires all of the members of  
2 the East pool -- current members of the East pool who  
3 have elected FRR to supply their load with their  
4 capacity.

5 Q. During that bridge period will AEP  
6 Generation Resources be a member as you've described  
7 it?

8 A. A member of what?

9 Q. Of -- you just used the term "member," I  
10 believe. Are you talking about member of the pool?

11 A. I was talking about member of the pool.  
12 I think what you're referring to is that we still  
13 need to maintain the FRR contract until the next  
14 auction, which would be June 1, 2015.

15 Q. And so during that time period, following  
16 pool termination, following corporate separation, you  
17 still have the FRR in place. AEP Ohio is obtaining  
18 its capacity from AEP Generation Resources; is that  
19 correct?

20 A. I put it that there will be a contract to  
21 supply either the SSO load of Ohio Power -- up until  
22 possibly a time that there is an auction.

23 Q. And the contract would be between AEP  
24 Ohio and AEP Generation Resources?

25 A. There would need to be a contract if

1       there was an excess SSO load between AEP Re -- AEP  
2       Generation Resources and AEP Ohio.

3               Q.     Now, you referred to the SSO load. With  
4       regard to capacity provided to CRES providers during  
5       that bridge period, would that capacity also be  
6       supplied through the contract between AEP Ohio and  
7       AEP Generation Resources?

8               A.     Yes.

9               Q.     Is it fair to say that during -- for that  
10       time period after the assets have been transferred to  
11       AEP Generation Resources, that AEP Ohio does not  
12       intend to formally go out in the market for capacity?

13              A.     It shouldn't have a requirement to do so.

14              Q.     And as far as -- as far as you understand  
15       it, it would not do that, correct?

16              A.     I believe there is no objective to do  
17       that.

18              Q.     Okay. Now, on the top of page 10 of your  
19       testimony, it's the sentence starting at line 2, you  
20       say "...cost-based compensation represents a  
21       long-term view of affordable and reliable capacity  
22       for Ohio customers...." and you're saying that AEP  
23       Ohio has provided affordable and reliable capacity  
24       for at least 100 years, correct?

25              A.     I'm not sure if I can go back that far

1 but since I probably go back further than most.

2 Q. That's your understanding.

3 A. At least as far back as I go.

4 Q. Yes. And during most of that time AEP  
5 Ohio priced both the capacity and energy at cost,  
6 correct?

7 A. That's correct.

8 Q. By longer-term view as you are using that  
9 phrase here in your testimony, that's a reference to  
10 the fact that power plants are built as long-term  
11 assets, correct?

12 A. That's correct.

13 Q. And your understanding is that that  
14 long-term view encompasses a compact, some people  
15 call it a regulatory compact, between the buyer and  
16 the seller that if AEP Ohio built a long-life asset,  
17 it would get compensated over the long term, correct?

18 A. That was the compact.

19 Q. So, now, as far as you know, all of AEP  
20 Ohio's units were constructed before 2001, correct?

21 A. That's correct. I'm sorry. I don't know  
22 the answer to that question because I know there has  
23 been some gas plants that have been purchased. I'm  
24 not an expert on that. Perhaps another witness can  
25 answer that question.

1 Q. Okay. No problem.

2 Now, for the units that would be involved  
3 in this capacity pricing case, the expectation under  
4 that compact is that AEP Ohio would recover the cost  
5 of its units over the lifespan of the units, correct?

6 A. I'm sorry, I didn't understand that first  
7 phrase under this capacity case.

8 Q. I'm sorry. Maybe -- we'll cross that  
9 part off, and we'll just ask the question that the  
10 compact that you had referenced, the expectation  
11 under that compact is that AEP Ohio would recover the  
12 cost of its units over the lifespan of the units,  
13 correct?

14 A. That's what was commonly known as the  
15 regulatory compact, correct.

16 Q. And you believe that cost-based  
17 compensation for capacity based on AEP Ohio's full  
18 embedded costs is affordable to customers as compared  
19 to RPM-based pricing over the next three years,  
20 correct?

21 A. Well, my testimony stands for itself. It  
22 says "second, cost-based compensation represents a  
23 long-term view of affordable and reliable capacity  
24 for Ohio customers in contrast o the short-term  
25 RPM-based pricing."

1           Q.    So based on your long-term view that  
2           you're taking, cost-based compensation for the next  
3           three years based on AEP Ohio's full embedded costs  
4           is affordable to customers as compared to using  
5           RPM-based pricing over the next three years, correct?

6           A.    I don't think that's the intention of the  
7           sentence. But you can interpret it, you know, any  
8           way you want to.

9           Q.    Well, is that your understanding that --  
10          that cost-based pricing remains affordable for the  
11          three-year period of this case that we're here about  
12          today?

13          A.    I believe that our cost base remains  
14          affordable for our customers.

15          Q.    And that's because you're looking at  
16          long-term recovery of the costs of your units over --  
17          over that 50- or 60-year period that your typical  
18          base load coal unit is in operation, correct?

19          A.    No. I think it's because we have shown  
20          that our G rates which we have provided in our new  
21          ESP is equivalent to the cost-based capacity rate. I  
22          believe that's in the testimony in the ESP case.

23          Q.    So in terms of what is affordable, you  
24          are comparing the capacity price charged to CRES  
25          providers to the generation charge to standard

1 service offer customers, and you believe that's a  
2 fair comparison?

3 A. I'm not comparing those two. I'm just  
4 saying that, you know, once again, our cost-based  
5 compensation represents a long-term view of  
6 affordable and reliable capacity for AEP Ohio  
7 customers.

8 Q. So the reference you just made to the  
9 base G cost to SSO customers, you are not comparing  
10 that to the capacity charge to CRES providers?

11 A. Well, the sentence stands for itself. It  
12 says in contrast to short-term RPM pricing. It  
13 doesn't mention CRES providers.

14 Q. So when you're talking about affordable,  
15 you're not talking specifically about charges to CRES  
16 providers?

17 A. I'm talking about cost-based compensation  
18 being affordable and reliable capacity for AEP Ohio  
19 customers.

20 Q. Over the long term.

21 A. Long term, short term, the sentence  
22 stands for itself.

23 Q. So if the short term is the next three  
24 years when cost-based capac -- cost-based  
25 compensation will be several multiples of

1 market-based compensation, your testimony is that for  
2 that three-year period it's still affordable.

3 A. No. I take exception to your term  
4 "market based." You are obviously referring to the  
5 RPM price which is the price that's there. It's a  
6 price that AEP -- at auction that AEP did not  
7 participate in.

8 So I don't know if it's market-based  
9 rate, but in general, again, this is -- this is an  
10 issue that we believe that for the next three years  
11 we should receive cost-based compensation for our  
12 capacity. After that, we -- in order to enter the  
13 competitive market, we are willing to go to an  
14 RPM-based price.

15 Q. So as of June 1, 2015, the RPM price will  
16 be a competitive market price, correct, as you just  
17 stated?

18 A. The RPM price will be what we will  
19 receive as a competitor in the marketplace.

20 Q. Now, with regard to the electric  
21 transition plan proceeding for Ohio Power and  
22 Columbus Southern, you were a witness in that case  
23 several years ago, correct?

24 A. Well, I was a witness in a case but  
25 several years, I think it was 13 years ago, maybe not

1 several, but okay.

2 Q. Yes. Using "several" loosely, so it  
3 would be back in the -- in approximately the year  
4 2000, correct?

5 A. Correct.

6 Q. And there was a stipulation in that  
7 proceeding that was signed by many of the parties,  
8 correct?

9 A. I believe so.

10 Q. And you, yourself, testified in support  
11 of that stipulation, correct?

12 A. I did.

13 MR. LANG: Your Honors, I would like to  
14 mark a few exhibits at this time if I can find them.

15 MR. HAYDEN: Your Honor, may I approach?

16 EXAMINER SEE: Yes.

17 MR. LANG: Your Honors, I would like to  
18 mark the direct testimony of Richard E. Munczinski on  
19 behalf of the Columbus Southern Power Company and  
20 Ohio Power Company as FES Exhibit 105, and I would  
21 like to mark the Stipulation and Recommendation from  
22 Case Nos. 99-1729 and 1730 of the ETP case as FES  
23 Exhibit No. 106.

24 EXAMINER SEE: The exhibits are so  
25 marked.



1 MR. LANG: Thank you, your Honor.

2 (EXHIBITS MARKED FOR IDENTIFICATION.)

3 Q. (By Mr. Lang) Now, Mr. Munczinski, if I  
4 could ask you to look at Exhibit 105, which is your  
5 direct testimony.

6 A. Yes, sir.

7 Q. Do you agree this is your direct  
8 testimony from the electric transition plan case that  
9 was testimony in support of the stipulation?

10 A. Oh, I would have to admit I don't  
11 recognize it but accept that subject to some checking  
12 this was my testimony.

13 Q. And is the -- and then the exhibit marked  
14 as No. 106, the Stipulation and Recommendation, do  
15 you recognize this as the stipulation from the  
16 electric transition plan case?

17 A. Same answer to that question.

18 Q. Now, if I could ask you to turn to page 9  
19 of your ETP testimony. It's on the top of that page  
20 lines 2 through 4. You state that "...the Companies  
21 dropped their claims for stranded generation costs.  
22 The customers no longer face the potential of such  
23 costs being part of the Companies' transition costs."

24 Now, by "stranded generation costs" here  
25 that you are referring to in your testimony, you're

1 familiar with that term of "stranded generation  
2 costs"?

3 A. Yes.

4 Q. And ask you to look at the related  
5 provision in the stipulation which is on page 3 and  
6 it's what is Roman Numeral IV that's entitled  
7 "Generation Transition Charge." That provision of  
8 the stipulation says "Neither Company will impose any  
9 lost revenue charges (generation transition charges  
10 (GTC)) on any switching customer."

11 Now, are those -- are those two  
12 provisions -- those two provisions are essentially  
13 saying the same thing, correct? They both address  
14 stranded cost recovery?

15 A. I believe that's the case.

16 Q. And you testified in the electric  
17 transition plan case that -- that the company waiving  
18 the right to recover stranded costs through these  
19 lost revenue charges was a concession of the company  
20 as part of the stipulation in that case, correct?

21 A. Yes.

22 Q. And the purpose of the generation  
23 transition charge was to collect above-market  
24 generation costs, correct?

25 A. It seems to me the purpose of the

1 generation charge was to collect any lost revenue  
2 charge.

3 Q. Well, that charge is collecting what  
4 would be, you know -- that charge is collecting the  
5 typical stranded costs, correct, or recovering those  
6 typical stranded costs?

7 A. No. I recall that there were two  
8 methodologies back in those days; one was stranded  
9 cost recovery that, you know, was sort of a present  
10 value back of dollars versus book value, and then  
11 there was the FERC-type form of what I believe is  
12 called lost revenue charge. But, I mean, if it helps  
13 you, I mean, commonly they were what at that point in  
14 time was known as stranded costs recovery.

15 Q. Now, Mr. Munczinski, you've submitted the  
16 prefiled testimony which we have marked as an  
17 exhibit, and you testified at the hearing in the ETP  
18 case, correct?

19 A. I recall I did.

20 Q. Do you remember it being cross-examined  
21 by an attorney who was representing Shell Energy at  
22 the time?

23 A. I recall I did.

24 Q. And do you recall his name was  
25 Mr. McCrea?

1           A.    I believe that's correct.

2                   MR. LANG:  Your Honors, to speed things  
3   along, I would like to mark as an additional exhibit  
4   the section of that cross-examination of  
5   Mr. Munczinski that's related to stranded costs and  
6   lost revenue charge.

7                   Your Honor, we ask that this be marked as  
8   FES Exhibit 107.

9                   THE WITNESS:  We may have stranded costs  
10  here.

11                   EXAMINER SEE:  The exhibit is so marked.  
12                   (EXHIBIT MARKED FOR IDENTIFICATION.)

13                  Q.    (By Mr. Lang) Mr. Munczinski, just to  
14  give you a frame of reference, if you could turn to  
15  page 13 which has been marked starting at line 1  
16  is -- is your name being called as a witness on  
17  behalf of CSP and Ohio Power, correct?

18                  A.    That's correct.

19                  Q.    And then on pages 13 and 14 is your  
20  marking your prefiled testimony which we've referred  
21  to here today, and also marking the stipulation as  
22  Joint Exhibit 1, and you did that with your attorney,  
23  Mr. Resnik, correct?

24                  A.    I did.

25                  Q.    Now, and then starting on page 15 is

1 where Mr. McCrea from Shell Energy was asking you --  
2 started to ask you questions, correct?

3 A. That's correct.

4 Q. And at the bottom of page 15, Mr. McCrea  
5 asked you about the two sections that we've just  
6 discussed, section 4 of the stipulation and the  
7 statement in your testimony about, you know, about  
8 the companies dropping their claims for recovery of  
9 stranded generation costs. Do you see that?

10 A. Yes, I do.

11 Q. Now, on page 16, starting at line 4, you  
12 explain, you say "Well, in my mind, they basically  
13 say the same thing. The purpose, as I understand it,  
14 of the generation transition charge was to collect  
15 above market generation costs. The typical stranded  
16 costs."

17 So that was your understanding at the  
18 time, correct?

19 A. That's correct.

20 Q. And it remains your understanding today,  
21 correct?

22 A. That would be correct.

23 Q. Now, you further explain, you say "it  
24 gets a little complicated because in our filing, even  
25 though we had shown that we had stranded costs on a

1 typical 20-year revenue present-value calculation, we  
2 were seeking in the lost revenue charge, which is  
3 more tied to that FERC formula that says if you are a  
4 customer that leaves the utility, you pay me the  
5 difference between the market rate and what your  
6 embedded generation rate is." Correct?

7 A. That's what the transcript says.

8 Q. So the -- as you described it, this lost  
9 revenue charge was tied to the FERC formula that for  
10 customers leaving the utility, the customers -- the  
11 customer pays the utility the between -- between the  
12 market price and what the company's embedded  
13 generation rate is, correct?

14 A. I believe that was a standard at that  
15 time.

16 Q. And AEP certainly believed at that time  
17 it was appropriate to determine stranded costs based  
18 on the difference between embedded costs and the  
19 market price, correct?

20 A. I believe that we waived that  
21 requirement.

22 Q. Okay. And as part of that, what AEP Ohio  
23 waived -- and when you say they waived that  
24 requirement, you mean they waived that in the  
25 stipulation?

1           A.     Correct.

2           Q.     So there was a -- in the original  
3     proposal there was a test that if the generation  
4     prices were higher than market, the companies would  
5     recover the difference from a leaving customer --  
6     from a shopping customer, correct?

7           A.     If I recall the original filing, the  
8     requirements were to either literally claim stranded  
9     costs or someone would claim stranded benefits, so we  
10    put together a case that had expert witnesses testify  
11    that indeed AEP did have stranded costs.

12                   In a settlement which included actually  
13    many parties in the room, given the benefits of that  
14    settlement we agreed that we wouldn't collect our  
15    stranded costs at that time.

16                   So I think you have to realize then in  
17    any settlement there are benefits and costs for all  
18    sides and can't take each piece separately and try to  
19    dissect it on its own.

20           Q.     And I thank you for that information, but  
21    I was just asking specifically about this lost  
22    revenue charge.

23                   Now, do you remember whether the lost  
24    revenue charge in the riders was called a transition  
25    charge rider?

1           A.    I don't, but it sounds logical there  
2 would be some kind of a transition charge rider.

3           Q.    And it would be a charge -- it would be a  
4 charge that was only to shopping customers, correct?

5           A.    I believe that's the way the FERC  
6 formulas worked at that time.

7           Q.    Well, and that's the way the electric  
8 transition plan proposal was was that stranded cost  
9 recovery would be stranded cost recovery from  
10 shopping customers, correct?

11          A.    That seems to be what the document does  
12 relate to.

13          Q.    Okay. Switching topics --

14          A.    Going back further or?

15          Q.    No, not going back any further than that.

16                All of the AEP East companies that are  
17 members of the pool have elected FRR status for their  
18 load as well as for their generating capacity,  
19 correct?

20          A.    Could you clarify the timeframe?

21          Q.    As of today so -- and for the last  
22 several years.

23          A.    As of today, 2012, my understanding is  
24 all the AEP East companies have elected FRR load  
25 status and then we apply our capacity to meet that



1 FRR status.

2 Q. So it's the pooled capacity that meets  
3 the load of all of the AEP East members under the FRR  
4 contract.

5 A. Well, actually, again, the way I look at  
6 it there are two contracts. The first contract that  
7 as we established was created in the 1950s, and no, I  
8 did not write it, even though I have been accused of  
9 that, is the pooling agreement, and it's a contract  
10 and it says that we have to have capacity to meet our  
11 load on -- in those five companies and there is some  
12 rules around that, how that capacity is priced. It's  
13 really priced as embedded costs.

14 The second contract I like to think of is  
15 over -- oversees that contract in effect is that --  
16 and they both work in conjunction with each other, is  
17 the FRR contract which says that, you know, AEP East  
18 operating companies wanted to remain more regulated  
19 than not, so it entered, and this Commission agreed  
20 with that, the staff applauded PJM for allowing us to  
21 be an FRR contract and that contract also says that  
22 we have this load which has to be met by our capacity  
23 and it's a cost-based model.

24 Q. So my question, is it fair to say that  
25 it's the pooled capacity that meets the load of all

1 of the AEP East members?

2 A. And all I was trying to do was say that  
3 it's both of those contracts that do that.

4 Q. So -- and the answer is yes.

5 A. It's both of those contracts, that the  
6 FRR contract and the pool contract that have the  
7 capacity meet the load at embedded costs and those  
8 contracts, you know, are in place and one of them  
9 doesn't end until June 1, 2015, which I think is part  
10 of the dispute in this case.

11 Q. And that's what you refer to as the FRR  
12 contract, it doesn't end until June 1, 2015?

13 A. Correct. At which time we are willing to  
14 go to another model in order to have a level  
15 competitive playing field.

16 Q. Now, under the pool agreement, even if  
17 the pool member is required to install or have  
18 capacity available to it that is sufficient to cover  
19 its -- its own load, its internal load, correct?

20 A. That was one of the intentions of the  
21 pooling agreement, correct.

22 Q. And that's a provision of the pooling  
23 agreement, correct, not just an intention?

24 A. It is.

25 Q. Now, Ohio Power has more capacity than it

1 needs to meet its internal load, correct?

2 A. That's correct.

3 Q. And another member of the pool is  
4 Appalachian Power, correct?

5 A. Correct.

6 Q. Appalachian Power has less capacity than  
7 it needs to cover its load, correct?

8 A. That is correct, and that's why  
9 Appalachian Power has been purchasing about 2,500  
10 megawatts from Ohio Power Company which is why we had  
11 the intention of moving Amos 3 and Mitchell over to  
12 Appalachian and Kentucky Power.

13 Q. And it's been that way for many years.  
14 Has it been, say, since the 1980s?

15 A. I would say that my recollection is it's  
16 been that way since the 1980s.

17 Q. So as you said, for many years Ohio Power  
18 has sold its excess energy and capacity into the  
19 pool, correct?

20 A. Correct.

21 Q. And when it does that, both the energy  
22 and the capacity are priced at a cost basis under the  
23 pool agreement, correct?

24 A. That's correct. So say it another way,  
25 Appalachian Power's -- customers of Appalachian

1 Power, customers of Kentucky Power buy capacity and  
2 energy at embedded costs from Ohio Power, which is  
3 another reason why we believe it's unfair for CRES  
4 providers to come in and receive RPM-priced capacity  
5 when you would be disadvantaging the customers that  
6 we have in Kentucky and West Virginia and Virginia.

7 MR. LANG: Your Honor, I would move to  
8 strike the answer after "that's correct." The rest  
9 of it was not responsive to my question.

10 MR. NOURSE: Your Honor, he was asking  
11 about the pricing under pool. Mr. Munczinski has  
12 just explained the pricing and the related  
13 implications.

14 EXAMINER SEE: The answer stands.

15 Q. (By Mr. Lang) Now, Mr. Munczinski, the  
16 energy and capacity not used by the internal load of  
17 other pool members is sold outside the pool, correct?

18 A. Let me help you out --

19 Q. Well, why -- can you answer my question,  
20 please.

21 A. No.

22 Q. So you cannot -- you do not know whether  
23 the energy capacity not used by the internal load,  
24 whether that energy and capacity are sold outside of  
25 the pool?

1           A.    Well, again, if I could explain, I think  
2           I could help you. I'm not trying to be evasive. The  
3           capacity is used by the pool members. We have at  
4           times sold capacity to -- we sell capacity to  
5           wholesale members. We have contracts with like  
6           Buckeye Power, people like that.

7                     We buy capacity from OVEC, so it's just  
8           not that simple. I am just trying to explain. There  
9           are a number of ways capacity gets bought and sold in  
10          the pool.

11                    Energy -- what happens with energy is  
12          we --

13           Q.    Mr. Munczinski, my question is outside  
14          the pool. We have talked about sales inside the  
15          pool.

16           A.    Okay. I'm sorry.

17           Q.    There is capacity and energy that is sold  
18          outside the pool which is referred to as an  
19          off-system sale, correct?

20           A.    Well, when we refer to off-system sales,  
21          we refer to excess energy that's sold into the  
22          wholesale market.

23           Q.    So off-system sale for you is specific to  
24          an energy sale, correct?

25           A.    I would portray it that way. I mean, we

1 do have wholesale sales that sell capacity and  
2 energy. For instance, we may have a contract with  
3 Westerville in the past that we have had both  
4 capacity and energy sales to.

5 Q. Now, those -- those sales outside of the  
6 pool are sales at whatever price the market will  
7 bear, correct?

8 A. Again, yes and no. We could have a  
9 bilateral contract that's at-cost sale. We do that.  
10 For instance, with IMDA and IMPA, but to your point  
11 the energy is -- the excess energy is usually sold on  
12 market to the PJM markets.

13 Q. So on the energy side just talking about  
14 energy off-system sales, those -- those sales are  
15 into the -- is into the PJM energy market; is that  
16 correct?

17 A. Yeah, in what we used to call opportunity  
18 sales, meaning there was no contractual tie to that  
19 energy or that capacity.

20 Q. Now, with respect to the capacity  
21 resources that are at issue in this case, so capacity  
22 resources that are used to provide capacity to CRES  
23 providers, your understanding is that AEP has two  
24 options for recovering the cost of those capacity  
25 resources -- let me start that again. I was being

1 too specific.

2 I want to talk about the capacity  
3 resources that AEP Ohio owns and your understanding  
4 that AEP Ohio has two options for recovering the  
5 costs of those capacity resources AEP Ohio owns,  
6 either through the nonshopping base G rate paid by  
7 SSO customers or from CRES provider payments,  
8 correct?

9 A. I mean, I would say that's correct at the  
10 retail -- for the SSO, the retail side, and on the  
11 wholesale side it does receive payments through the  
12 PJM from the CRES providers.

13 Q. So those are -- those are the two  
14 options, correct?

15 A. I mean, it does also receive credits  
16 through the production pool.

17 Q. So there is -- there is three sources of  
18 revenue?

19 A. There's -- there are three -- many  
20 sources of revenue. There are three that I've  
21 identified and I believe both the cost-based rate,  
22 you can ask Witness Pearce how he developed  
23 cost-based rate, and the SSO rate. The cost-based  
24 rate that we provided included a credit from the pool  
25 but, again, that's Witness Pearce's testimony.

1           Q.    Now, your opinion is that if the CRES  
2   provider payments are based on RPM pricing, then AEP  
3   Ohio is not recovering its capacity costs, correct?

4           A.    That's correct.

5           Q.    And you do not make up the difference  
6   from SSO customers, correct?

7           A.    That's correct.

8           Q.    Now, you believe that nonshopping  
9   customers currently are paying AEP Ohio \$355 per  
10  megawatt day for capacity, correct?

11          A.    Based on the testimony of I believe it's  
12  Witness Allen in the ESP case, he concludes that the  
13  two are equivalent.

14          Q.    So -- so in answering that way are you  
15  saying your belief is based solely on the testimony  
16  of Mr. Allen?

17          A.    I have not done the calculation.  He  
18  provides the calculation, and I know he is a credible  
19  witness, so I can rely on him.

20          Q.    Now, neither you nor Mr. Allen have done  
21  a cost-of-service study to reach that conclusion,  
22  correct?

23          A.    I have not.

24          Q.    And as far as you know, Mr. Allen has  
25  not, correct?



1           A.    I can't testify for Mr. Allen.

2           Q.    Well, you're basing your opinion on his  
3 testimony. Do you have any memory that he did a  
4 cost-of-service study to reach that conclusion?

5           A.    My recollection is that he took the -- my  
6 recollection is that it's included in his testimony  
7 that he concludes that the embedded G rate is very --  
8 provides the same revenue stream as the cost-based  
9 figure that Kelly Pearce has in his testimony.

10          Q.    So that -- so that's certainly not -- do  
11 you know what a cost-of-service study is?

12          A.    I happen to know.

13          Q.    I would think so. Now, and what you've  
14 described is not a cost-of-service study, correct?

15          A.    Not a full cost-of-service study,  
16 correct.

17          Q.    Well, it's not a cost-of-service study,  
18 correct? It's not what the Commission or you would  
19 recognize as a cost-of-service study?

20          A.    Well, I'm not sure this Commission has a  
21 cost-of-service study any more.

22          Q.    Traditionally.

23          A.    Traditionally, yes.

24          Q.    Now, nonshopping customers also pay  
25 the -- pay for fuel through the fuel adjustment

1 clause, correct?

2 A. Correct.

3 Q. And your understanding is that the fuel  
4 adjustment clause recovers AEP Ohio's energy costs  
5 both fuel and nonfuel, correct?

6 A. That's my understanding.

7 Q. Now, with regard to the rates that  
8 nonshopping customers of AEP Ohio pay for capacity,  
9 you don't know whether that rate can be found in any  
10 AEP Ohio tariff, correct?

11 A. I do not know the answer to that  
12 question, sorry.

13 Q. And, in fact, you cannot identify any  
14 specific capacity costs that are in AEP Ohio's base  
15 generation charge to standard service offer customers  
16 or nonshopping customers, correct?

17 A. I am not knowledgeable about the AEP Ohio  
18 tariffs.

19 Q. And, well, you do understand that that  
20 charge, the base generation rate for SSO customers,  
21 is not based on a cost-of-service study, correct?

22 A. That's correct.

23 Q. And but that base generation rate does  
24 include capacity and energy and ancillary services  
25 charges, correct?

1           A.    Oh, I would portray it that that base  
2           generation rate that was established for one company  
3           in '91 and one company in '95 and added to and  
4           subtracted to and manipulated all around the  
5           ballpark. It is a rate.

6                    It just turns out if you use that rate,  
7           you generate the same net revenue as the cost-based  
8           capacity rate would.

9                   MR. LANG: Your Honors, I have one more  
10          exhibit if I may approach.

11                   EXAMINER SEE: You may.

12                   MR. LANG: Your Honors, I ask that this  
13          exhibit, these are discovery responses from Columbus  
14          Southern Ohio Power, that this be marked as Exhibit  
15          FES Exhibit No. 108.

16                   EXAMINER SEE: The exhibit is so marked.

17                   (EXHIBIT MARKED FOR IDENTIFICATION.)

18           Q.    (By Mr. Lang) Mr. Munczinski, this  
19          exhibit is three pages, and on each page there is an  
20          interrogatory response from Columbus Southern and  
21          Ohio Power. Do you see that?

22           A.    Correct.

23           Q.    Now, and these were discovery responses  
24          it says in the Case No. 11-346, so as part of the  
25          electric transition plan case from last year. Do you

1 recognize -- do you recognize the case? If you do.

2 A. I don't but I don't recognize case  
3 numbers very often, but I'll -- I'll accept it.

4 Q. Now, if I could ask you to turn to the  
5 third page first. This says it's prepared both by  
6 Philip Nelson and Laura Thomas, and Mr. Nelson, it's  
7 correct, he works for you or he reports to you; is  
8 that correct?

9 A. That's correct.

10 Q. And where it has a supplemental response,  
11 the response is after the -- after the comment in the  
12 second line "...the Company's ESP is not cost based  
13 and the Company has not identified any specific  
14 capacity costs or capacity credits in its rates."  
15 And do you see that statement?

16 A. I do.

17 Q. Okay. And do you agree with that  
18 statement that -- again, we're talking about the SSO  
19 rates, that they are not cost based?

20 A. I do. I think that was the way I  
21 answered the question the first time you asked me and  
22 since then. These rates go back many, many years.  
23 They have been added to and subtracted from and so we  
24 have -- you know, what we have is what we have.

25 Q. So in -- on the first and the second page

1 where the response and the second paragraph says that  
 2 "AEP Ohio has not conducted a cost-of-service study  
 3 for unbundled generation service," you would also  
 4 agree with that statement: That's essentially what  
 5 you've just described?

6 A. Right. I think we just said we don't  
 7 have a full cost of service but that we can take the  
 8 stream of money times some load and come up with, you  
 9 know, a proxy.

10 Q. And then the last sentence on page 1 and  
 11 page 2, the first page, that "...the 2011 Base ESP  
 12 'g' rate," and the 2011 base G rate is the rate that  
 13 is really in effect today, right?

14 A. I'm not sure what's in effect today  
 15 actually.

16 Q. All right. No problem.

17 A. Sorry.

18 Q. It says that the 2011 Base ESP G rate  
 19 includes energy and capacity, correct?

20 A. That's what it says.

21 Q. And on the next page it says it also --  
 22 that base ESP G rate also includes ancillary  
 23 services, correct?

24 A. That's what it says.

25 Q. And is that consistent with your

1 understanding that that base G rate again includes  
2 energy and capacity and ancillary services charges?

3 A. That's how the question was answered.  
4 Even though, I will add, there is no specific energy  
5 or capacity credit so.

6 Q. So is -- is this response true that the  
7 base ESP G rate includes both energy and capacity?

8 A. Again, I'm not testifying to base G  
9 rates, but obviously we've answered the question, I  
10 would say that the answer is true.

11 Q. Okay. And your understanding is that the  
12 answers on each of these pages are accurate and  
13 correct responses from AEP Ohio, correct?

14 A. That's my understanding.

15 Q. Now, in your testimony you talk about  
16 CRES providers self-supplying their own capacity. If  
17 the CRES provider wanted to self-supply his own  
18 capacity for the upcoming 2012-2013 delivery year,  
19 could the CRES provider make that election now?

20 A. No. The CRES provider would have had to  
21 make that election three years prior to the start of  
22 the next period which, again, is interesting that no  
23 one did that even though everyone thought there was  
24 going to be shopping customers and now want to break  
25 the contract and take advantage of price -- auction

1 price that we didn't even participate in.

2 Q. So for the upcoming 2012-2013 delivery  
3 year, that election by a CRES provider would have had  
4 to have been made prior to March, 2009; is that  
5 correct?

6 A. That's correct. I think in our  
7 deposition we said subject to check it was three  
8 years, but I did check.

9 Q. You checked.

10 A. We're okay.

11 Q. Great. Now, if a CRES provider had made  
12 that election in March, 2009, that would have reduced  
13 AEP Ohio's capacity obligation as the FRR entity for  
14 the time period when the CRES provider would be  
15 self-supplying, correct?

16 A. I believe that's the way it would work  
17 that the third party would have taken the -- the FRR  
18 position for that amount of load. They would have to  
19 commit that amount of capacity.

20 Q. And that would reduce AEP Ohio's  
21 commitment for that -- for whatever load would be  
22 substituted by the CRES provider, correct?

23 A. It would free up capacity that AEP Ohio  
24 had committed to FRR load by either bilateral sales  
25 to other utilities or sales to its own sister

1 companies through the pool depending on the needs of  
2 the pool members. Pool members would have first call  
3 on that capacity.

4 Q. You had also mentioned bilateral sales  
5 outside of the pool. Again, as with any bilateral  
6 sale that would have been at what the -- what the  
7 market would bear.

8 A. No, not necessarily. It could have been  
9 a sale to the City of Columbus or a sale to the City  
10 of Westerville at embedded costs.

11 Q. And those -- you mentioned those cities  
12 because AEP Ohio has existing contracts with those  
13 cities?

14 A. I'm not -- I'm not aware of they do now,  
15 but they have had in the past.

16 Q. And in the past they would buy energy and  
17 capacity at cost from AEP Ohio?

18 A. City of Westerville did, yes, for many  
19 years.

20 Q. Now, and again, that freed up capacity  
21 sold within the pool would be -- would again be at  
22 the cost as defined by the pool agreement, correct?

23 A. Correct.

24 Q. Now, from now -- from now until June 1,  
25 2015, is it fair to say that AEP Ohio will not allow



1 CRES providers to self-supply capacity?

2 A. It's fair to say that that is a term,  
3 condition -- and condition of our FRR contract.

4 Q. So if a CRES provider came to AEP Ohio  
5 today and said we have more shopping in 2013, we  
6 would like to self-supply our own capacity, AEP Ohio  
7 would say, no, you're too late; is that fair?

8 A. I'm not aware of any CRES providers  
9 actually requested that, but I would say that, again,  
10 our contract precludes that.

11 Q. And by "contract," you mean the terms of  
12 the FRR?

13 A. Correct.

14 Q. Now, for the capacity sold to a CRES  
15 provider, and let's talk about what happens today, if  
16 capacity is sold to a CRES provider, the CRES  
17 provider pays PJM for that capacity and then PJM  
18 remits that back to AEP Ohio, correct?

19 A. That's my understanding.

20 Q. And it's also your understanding that AEP  
21 Ohio receives no other compensation for the capacity  
22 sold to CRES providers other than that PJM payment.

23 A. That's my understanding, correct.

24 Q. Now, on page 12 of your testimony, on  
25 line 5 you refer to a market cycle and by "market

1 cycle" you mean the -- tell you what is basically the  
2 common understanding, that markets have cycles,  
3 prices go up, prices go down, correct?

4 A. I believe that was our discussion during  
5 the depositions.

6 Q. And by "market" what you are referring to  
7 is the market -- you are referring to RPM, correct?

8 A. That's correct.

9 Q. And at this point in time the market  
10 price for capacity is below AEP Ohio's embedded  
11 costs, correct?

12 A. Again, with this clarification, the  
13 RPM-based capacity rates are below AEP Ohio's  
14 embedded costs.

15 Q. I need a "yes" in there somewhere.

16 A. Well, I just read from my testimony so I  
17 think that's the most accurate answer.

18 Q. So -- well, at this point in time is the  
19 market price for capacity below AEP Ohio's embedded  
20 costs?

21 A. The RPM-based capacity rate is below AEP  
22 Ohio's embedded costs. Again, I'm not sure when you  
23 say "market based." We tend to say "RPM priced."

24 Q. Okay. Now, so sometime in the future  
25 that RPM price for capacity could be above AEP Ohio's

1 embedded costs.

2 A. It could.

3 Q. And that would be part of the market  
4 cycle, correct?

5 A. Correct.

6 Q. Now, also on page 12 of your testimony  
7 down a few more lines, lines 6 through 8, here you  
8 are comparing the RPM capacity rates to gross CONE,  
9 or cost of new entry. And you are making this  
10 statement to explain why AEP Ohio decided to request  
11 a change at FERC in the FRR compensation mechanism;  
12 is that fair?

13 A. That's fair.

14 Q. And AEP Ohio saw RPM prices drop well  
15 below the gross CONE and decided to take advantage of  
16 the clause in the reliability assurance agreement  
17 that it believes allows it to recover its full  
18 embedded cost, fair?

19 A. That's fair.

20 Q. Now, gross CONE is the benchmark for  
21 building a new unit, correct?

22 A. The cost of a new combined cycle unit.

23 Q. And it's -- and that would be -- that was  
24 actually my next question. Is your understanding  
25 with regard to the unit that gross CONE applies to is

1 a combined cycle gas turbine; is that correct?

2 A. That's correct.

3 Q. Now, when the RPM clearing price is well  
4 below gross CONE, that is a signal that one should  
5 not build capacity, correct?

6 A. That's my understanding, but perhaps some  
7 of the other witnesses, Mr. Horton who is more of an  
8 expert on PJM, would have a better answer.

9 Q. And the RPM -- now, your understanding is  
10 when you talk about the RPM capacity pricing, that's  
11 a three-year price, correct?

12 A. The RPM -- there are currently three RPM  
13 auction prices.

14 Q. And your belief is that -- that  
15 generation owners should not be building capacity on  
16 a three-year price, correct?

17 A. Yeah. I think that it's -- it's widely  
18 feared that people wouldn't make the large  
19 investments that a new generation unit would take on  
20 a three-year price. Now, that said, you know, I have  
21 all the confidence in the world that PJM is working  
22 on an auction, perhaps a longer-termed auction, that  
23 will allow new generation to be sited because there  
24 will be more certainty in the marketplace.

25 Q. If I could get the answer to my question

1     which was not what's widely feared but I'm just  
2     asking your opinion, and your opinion is that one  
3     should not build a capacity on a three-year price,  
4     correct?

5             A.     That would be my opinion and I'm sure not  
6     short of opinions, as you can tell.

7             Q.     Now, PJM currently has the obligation to  
8     ensure long-term generation adequacy and reliability  
9     within the state of Ohio, correct?

10            A.     Could I have that question repeated.

11            Q.     I can read it again. PJM currently has  
12     the obligation to ensure long-term generation  
13     adequacy and reliability within the state of Ohio?

14            A.     It does.

15            Q.     Now, on page 13 of your testimony, line  
16     12, you have a reference there to the Ohio  
17     Commission's previous state policy. And by that you  
18     mean the Commission -- your experience with the  
19     Commission not wanting AEP Ohio to go to market and  
20     also being afraid of Mon Power going to market,  
21     correct?

22            A.     Those are two good examples, correct.

23            Q.     Now, you also believe that AEP Ohio's  
24     first electric security plan and its second electric  
25     security plan were directed towards those sections of

1 Ohio law SB 221 that allowed for embedded cost  
2 recovery, correct?

3 A. That's correct.

4 Q. And your understanding is that the  
5 electric security plan option authorizes AEP Ohio to  
6 recover the full embedded costs of its generating  
7 plants, correct?

8 A. I would say that those sections of the  
9 law allow for that. And, again, since we are not  
10 tying it to a pure cost of service, there is a leap  
11 of faith in there that -- but there is some  
12 protections in the law known as the SEET test so if  
13 we are collecting more than we should, then there is  
14 an earnings test.

15 Q. With regard to the PJM RPM auction for  
16 the 2015-2016 planning year, now, you are aware that  
17 auction for the 2015-2016 planning year, actually  
18 the auction itself, takes place next month.

19 A. Correct.

20 Q. And AEP Ohio will participate in that  
21 auction for the 2015-2016 planning year, correct?

22 A. Correct.

23 Q. Now, it's fair to say that you do not  
24 know whether AEP Ohio will recover its embedded costs  
25 of generation in that auction.

1           A.     We do not know that.

2           Q.     And you also do not know whether AEP Ohio  
3 believes the auction will provide incentives for  
4 investments in generation.

5           A.     Well, our hope is that after the  
6 recession and the prices stabilize, that it will  
7 provide us with an incentive to make investments.

8           Q.     But as we sit here today, do you not  
9 know -- you do not know whether it will, correct?

10          A.     Since I don't know the auction price then  
11 we don't know what the consequences will be just like  
12 any other provider in the state of Ohio.

13          Q.     Now, you do believe that if the state --  
14 state of Ohio sets capacity pricing for the next  
15 three years based on an embedded cost, that will  
16 provide AEP Ohio incentives to invest in its  
17 generation, correct? That's your testimony.

18          A.     Right. It will allow us to make  
19 investments in our generation plants as it will in  
20 our distribution because, again, we are a bundled  
21 company. I think that's where you were going before.

22          Q.     And you do not know whether AEP Ohio has  
23 sufficient capacity to cover its load through May 31,  
24 2015.

25          A.     AEP Ohio has sufficient generation to

1 cover its load through June 1, 2015, and the AEP zone  
2 is long even after the stated retirements we made and  
3 also transferring Amos 3 and Mitchell units to our  
4 sister companies, so the zone itself will be long, if  
5 I recall the numbers.

6 Q. Now, is it fair to say because of  
7 possible transfers prior to May 31, 2015, transfers  
8 of generating assets, you do not know whether AEP  
9 Ohio will have sufficient capacity to cover its load  
10 through May -- through May 31, 2015?

11 A. No. I just stated the numbers I have  
12 looked at suggest that even after the retirements  
13 that have been announced because of the EPA rules,  
14 even after the transfer of Amos and Mitchell plants,  
15 the AEP zone, and again, the reason why is because  
16 there are -- there is capacity we share with OVEC  
17 which is about 2,000 megawatts of capacity from OVEC  
18 and has no load and there's also capacity that we  
19 share with Buckeye Cooperative which has excess  
20 capacity, more capacity than their -- than their  
21 load, so when we look at the AEP system in order to  
22 get some comfort that we can supply even in this new  
23 model that we are going to, we will be fine.

24 Q. Could I ask you to turn to your  
25 deposition transcript, please.



1           A.     Sure.

2           Q.     This will be at the bottom of page 48  
3           starting at line 23. I asked you "AEP Ohio certainly  
4           has sufficient capacity to cover its load through  
5           May 30, 2015, correct?"

6                     And you answered "I don't know the answer  
7           to that question." Correct?

8                     And then you went on "Because I don't  
9           know what's going to be allowed to be transferred or  
10          not transferred."

11                    And I asked you "As part of the corporate  
12          separation process."

13                    And you answered "Correct."

14                    That was right, those were your answers,  
15          right?

16          A.     Right. So my answer today is based on  
17          researching that question, and then my answer today  
18          was also based on the assumption, as I mentioned, the  
19          retirements will be in place, the transfer will be in  
20          place, and what this was referring to was that I'm  
21          not sure if those actions will be approved.

22          Q.     Well, and that's what I wanted to ask you  
23          is you -- you still don't know what assets will be  
24          transferred but the plan is to transfer the Mitchell  
25          and Amos ownership, Ohio Power ownership in those

1 units, correct?

2 A. That's correct.

3 MR. LANG: That's all the questions I  
4 have, your Honor.

5 EXAMINER SEE: Thank you, Mr. Lang.

6 Mr. Petricoff.

7 MR. PETRICOFF: Ms. Kaleps-Clark is going  
8 to take the questions.

9 EXAMINER SEE: Ms. Kaleps-Clark.

10 - - -

11 CROSS-EXAMINATION

12 By Ms. Kaleps-Clark:

13 Q. Good morning. I think it's still  
14 morning. Afternoon. My name is Lija Kaleps. I am  
15 here on behalf of Direct Energy, Exelon,  
16 Constellation, and RESA, and I just have a few  
17 questions this morning.

18 From 2007 to November of 2010, AEP was  
19 being compensated for capacity supplied to CRES at  
20 the adjusted PJM RPM auction price, correct?

21 A. Correct.

22 Q. Okay. And in November of 2010 AEP filed  
23 an application at the FERC, the Federal Energy  
24 Regulatory Commission, requesting a cost-based  
25 mechanism for capacity; is that correct?

1           A.     That's correct.

2           Q.     Okay. And can you take a look at page 11  
3 of your testimony. And lines 3 through 5 where you  
4 state that "...AEP Ohio is forced to absorb the cost  
5 of an unreasonable untimely unsustainable subsidy to  
6 CRES providers in Ohio." Do you see that?

7           A.     I see that.

8           Q.     So from 2007 up until the time you filed  
9 your filing at FERC, did you or AEP Ohio consider  
10 that rate to be an unsustainable subsidy to CRES  
11 providers?

12          A.     I did. I -- I moved into my current job  
13 in January of 2010. It wasn't too many months after  
14 I was in my new job that I recognized that AEP Ohio  
15 had options under the FRR and that the auctions as  
16 they were coming through were getting so low that, in  
17 fact, capacity would be free, which didn't make a lot  
18 of sense to any of us, so we filed -- according to  
19 the contract we were allowed to file at the FERC for  
20 a cost-based rate, and that's exactly what we did.

21          Q.     Okay. So are you saying at the time in  
22 2007, I believe it was in June of 2007, that the RPM  
23 auction price was used, you're saying that you felt  
24 that was an unsustainable subsidy to CRES providers?

25          A.     No. I guess what I'm saying is that I

1 don't go back that far in this current position so --  
 2 but I do -- to help you out, I do know there was very  
 3 little shopping and energy prices were high so that  
 4 it was probably not on a lot of radar screens at AEP  
 5 until I got there and then looked at the forward  
 6 auctions and said, you know, it's time we need to do  
 7 something because capacity can't be free. And it was  
 8 getting to be a point where it was going to be free.

9 Q. Okay. So at the time in 2007, you're  
 10 saying that you were less concerned about this issue  
 11 because capacity prices were high and there was less  
 12 shopping?

13 A. Well, I'm telling you that that's my  
 14 understanding of the mind-set of the people that had  
 15 my job before me, but I wasn't in that job so I can't  
 16 testify for those people.

17 Q. Well, would you say that was AEP Ohio's  
 18 view as a whole?

19 A. I don't think they realized that since  
 20 there was very little shopping people were -- and our  
 21 embedded cost rates were very low, I don't think  
 22 they -- they put the two together.

23 Q. You said your embedded costs were very  
 24 low?

25 A. Our embedded costs are very low

1 historically.

2 Q. So -- so is it your testimony that the  
3 rate charged to CRES providers should be based on the  
4 numbers of customers that are shopping?

5 A. No. It's our testimony that the rate we  
6 charge to CRES providers should be the embedded cost  
7 rate which allows us not to discriminate either  
8 through the pool the customers of West Virginia,  
9 Virginia, and so forth, and also doesn't discriminate  
10 against the SSO load which has, as we discussed  
11 before, on a cost-of-service basis but on some like  
12 basis, pretty much an equivalent rate.

13 Q. Okay. And you said at the time of 2007  
14 another consideration was the fact -- consideration  
15 as to why you were less concerned was the fact that  
16 the prices for the RPM auction are higher; is that  
17 correct?

18 A. They were higher, yes.

19 Q. So is it your testimony then that the  
20 Commission should consider what the RPM auction price  
21 is when setting the capacity rate?

22 A. It's our testimony that, you know, based  
23 on our contract with PJM and also the support that  
24 we've received from PJM at FERC that the Commission  
25 should provide us with embedded costs capacity rate.

1 MS. KALEPS-CLARK: Those are all the  
2 questions I have. Thank you.

3 THE WITNESS: Thank you.

4 EXAMINER SEE: On behalf of the Duke  
5 companies.

6 MR. NOURSE: Your Honor, if we could  
7 inquire about a break. Mr. Munczinski has been on  
8 the stand for some time.

9 EXAMINER SEE: For the better part of two  
10 hours. Do you need a break, Mr. Munczinski?

11 THE WITNESS: I'll go with the majority.

12 EXAMINER SEE: Let's take a 10-minute  
13 recess and pick up with Duke companies.

14 (Recess taken.)

15 EXAMINER SEE: Let's go back on the  
16 record.

17 Who is going to be cross-examining? Ms.  
18 Spiller?

19 MS. SPILLER: Your Honor, I will.

20 EXAMINER SEE: Proceed, Ms. Spiller.

21 MS. SPILLER: Thank you, your Honor.

22 - - -

23 CROSS-EXAMINATION

24 By Ms. Spiller:

25 Q. Mr. Munczinski, for purposes of your

1 examination this afternoon, can we have the  
2 understanding that a reference to AEP Ohio is a  
3 reference to Ohio Power Company, a distribution  
4 utility company here in Ohio?

5 A. Correct, with the exception of you said  
6 distribution. It's a generation transmission  
7 distribution company.

8 Q. Fair enough. Mr. Munczinski, because you  
9 were not involved in the FERC stakeholder process  
10 that resulted in the FRR alternative being adopted,  
11 you have no personal knowledge as to the changes of  
12 the PJM reliability assurance agreement that were  
13 made to incorporate that FRR alternative, correct?

14 A. Correct.

15 Q. But, sir, there were members of AEP who  
16 were involved in that stakeholder process, correct?

17 A. Correct.

18 Q. And to your understanding, sir, there  
19 were members of AEP who were involved in the  
20 deliberations that resulted in the changes to the  
21 reliability assurance agreement to incorporate the  
22 FRR alternative, correct?

23 A. Correct, that's my understanding, and  
24 Witness Horton will be here to testify to that.

25 Q. Thank you very much, sir.

1                   And given that you were not involved in  
2                   the FERC stakeholder process that culminated in the  
3                   FRR alternative, you have no personal knowledge as to  
4                   the intent of Section D.8 of Schedule 8.1 of the  
5                   reliability assurance agreement, correct?

6                   A.     I wouldn't say I have no personal  
7                   experience. I wasn't at the negotiating table but  
8                   obviously through general knowledge, knowledge that  
9                   was disseminated within AEP from those proceedings,  
10                  then I do have some knowledge. I obviously  
11                  understand that you can have either a cost-based  
12                  capacity charge or an RPM-based capacity charge.

13                  Q.     Sir, you have no personal knowledge as to  
14                  the intent of the language in Section D.8 of Schedule  
15                  8.1 of the PJM RAA, or reliability assurance  
16                  agreement, correct?

17                  A.     The only knowledge I have is the intent  
18                  that Witness Horton provided to me.

19                  Q.     So what you know, sir, is what other  
20                  people have told you, correct?

21                  A.     Correct.

22                  Q.     Thank you. Mr. Munczinski, AEP  
23                  voluntarily elected the FRR status, correct?

24                  A.     That is correct.

25                  Q.     And AEP voluntarily signed the



1 reliability assurance agreement, correct?

2 A. I'm assuming that's correct.

3 Q. And AEP Ohio became an FRR entity  
4 effective June 1 of 2007, correct?

5 A. Subject to check, I believe that's the  
6 first time it made that election.

7 Q. And since voluntarily electing FRR status  
8 effective June 1, 2007, through the end of December,  
9 2011, AEP Ohio and its predecessor utility companies  
10 have consistently charged competitive retail electric  
11 service providers an RPM-based price for capacity,  
12 correct?

13 A. Correct.

14 Q. Sir, you have mentioned the terms of the  
15 contract with PJM concerning the FRR election in  
16 response to some of your questions this morning posed  
17 by Mr. Lang. To be clear, as an FRR entity, AEP Ohio  
18 is obligated to fulfill the capacity obligation for  
19 its footprint, correct?

20 A. Well, actually it's much more complicated  
21 than that unfortunately because the FRR entity is, in  
22 fact, the five members of the interconnection  
23 agreement so that we elect -- in our FRR option we  
24 elect all of the five companies, and I can name them;  
25 Appalachian Power Company, Indiana Michigan Power

1 Company, Kentucky Power Company, and then the two  
2 Ohio companies now known as one.

3 So maybe there is four now. We elect  
4 those four companies' load to be FRR. The commitment  
5 then becomes I have to meet that load through my own  
6 capacity.

7 Q. Sir.

8 A. I just want to clarify that. I believe  
9 PJM looks at that as a pool four-company load and  
10 capacity.

11 Q. But the obligation is -- is to meet the  
12 capacity obligations of the load, correct? That's  
13 your obligation as an FRR entity, correct?

14 A. The obligation is for the -- the four  
15 companies to have enough capacity to meet the load  
16 obligation that it serves.

17 Q. And in meeting that load obligation, AEP  
18 Ohio is not required to use its own generating  
19 resources, correct?

20 A. Well, again, through both the intent of  
21 the pool and the intent of the FRR and the practice  
22 precedent we set on both those agreements we do meet  
23 our load by our own capacity but we can -- we can  
24 purchase capacity and we can sell capacity.

25 Q. But my question, sir, is as an FRR

1       entity, AEP Ohio is not required to use its own  
2       generating resources to fulfill its capacity  
3       obligations, correct?

4             A.    I hesitate.  You may want to ask that  
5       question to Witness Horton.

6             Q.    Certainly we will do so, sir.

7                    You made reference to a filing that was  
8       made at the FERC in November of 2010 pursuant to  
9       which AEP sought to change the capacity rate for CRES  
10      providers, correct?

11            A.    Correct.

12            Q.    Do you recall that testimony?

13                   And in that filing made in November of  
14      2010, AEP proposed a new rate for capacity applicable  
15      to CRES providers that would take effect January 1 of  
16      2011, correct?

17                   THE WITNESS:  Can I have that question  
18      read back to me?

19                   (Question read.)

20            A.    That was January 1, 2011.

21            Q.    Yes, sir.  And January 1, 2011, falls  
22      between the 2010-2011 planning year for PJM, correct?

23            A.    Correct.

24            Q.    And when AEP made the filing in November  
25      of 2010 at the FERC, CRES providers could not have

1     opted out of the AEP FRR and elected to self-supply  
2     for the 2010-2011 planning year, correct?

3             A.     That -- that election would have had to  
4     have been made three years prior. Again, that's part  
5     of the quarrel we have that no one has -- did elect  
6     and now seems to want to be subsidized with our  
7     generation.

8             Q.     Well, sir, let me go back to my question.  
9     When AEP Ohio made their filing at the FERC in  
10    November of 2010, CRES providers could not have  
11    elected to opt out of the AEP FRR and self-supply  
12    capacity for the 2010-2011 PJM planning year,  
13    correct?

14            A.     According to the terms of the contract,  
15    that is correct.

16            Q.     And similarly, sir, when AEP made their  
17    filing at the FERC in 2010, CRES providers could not  
18    have elected to opt out of that FRR plan and  
19    self-supply capacity for the 2011-2012 PJM planning  
20    year, correct?

21            A.     Correct.

22            Q.     And when AEP Ohio made their filing at  
23    the FERC in 2010, CRES providers could not have  
24    elected to opt out of that FRR plan and self-supply  
25    capacity for the 2012-2013 PJM planning year,

1 correct?

2 A. I'm going to have to think about that.  
3 That's three years? Three years is the -- was the  
4 requirement. You had to self-select three years  
5 prior to the beginning of that period.

6 Q. So that would have had to have been prior  
7 to the RPM auction that took place in May of 2009,  
8 correct?

9 A. Correct.

10 Q. Thank you. As part of its proposed  
11 charge of \$355 per megawatt day on a combined company  
12 basis that AEP Ohio proposes to charge CRES  
13 providers, AEP Ohio does not propose to credit  
14 shopping customers for net energy and ancillary  
15 services revenues, correct?

16 A. That's the testimony of Kelly Pearce.  
17 That's our policy and we do offer an option in case  
18 the Commission wanted to offer the energy.

19 Q. I understand you may offer an option, but  
20 it is not AEP's proposal to credit shopping customers  
21 with net energy -- net energy and ancillary services  
22 revenues, correct?

23 A. That's correct.

24 Q. And, sir, you have no opinion as to what  
25 would happen to retail shopping in AEP Ohio's service

1 territory if AEP Ohio were permitted to charge CRES  
2 providers \$355 per megawatt day for capacity,  
3 correct?

4 A. Well, I would say that there are -- from  
5 my understanding and looking at the tariffs and the  
6 shopping levels currently, there are some tariffs  
7 that can be beat from shopping, so I wouldn't  
8 preclude shopping at 355, but, again, I have not done  
9 a market study in any way.

10 Q. And, sir, you have no opinion or no  
11 knowledge as to what would happen to shopping if AEP  
12 Ohio were to charge \$355 per megawatt day, correct?

13 A. Again, I believe that there would be some  
14 shopping because of the way the tariffs were produced  
15 between the commercial and where we saw even at  
16 higher RPM levels than today there was -- there was  
17 consistent shopping.

18 Q. Sir, do you still have your deposition  
19 transcript from last week's deposition in front of  
20 you?

21 A. Sure.

22 Q. And if I may refer you, please, to page  
23 62, line 7, you were asked the question "Would you  
24 agree that if the Commission allows AEP Ohio to  
25 charge for capacity at 355, shopping in your service

1 territory will likely diminish?"

2 On line 11 you answered "I have no  
3 opinion on nor knowledge of what would happen to  
4 shopping if we charged 355."

5 Did I read that correctly?

6 A. You did, so now I have an opinion.

7 Q. But, sir, you haven't done any analysis  
8 or evaluation beyond the opinion that you have formed  
9 between a week ago and today, correct?

10 A. That -- that's correct, but after the  
11 deposition thinking about and looking at some data on  
12 the shopping levels, looking at the ESP case where  
13 we've seen 36 percent of our customers shopping.  
14 We've seen 7 percent customers shopping at the 255.  
15 We've seen market prices collapse, and market prices  
16 are collapsing every day even since the depositions,  
17 so the likelihood of shopping at higher capacity  
18 rates becomes more and more likely, but I have not  
19 done a detailed study. I am not a market expert.

20 Q. You are saying it's more likely that  
21 shopping will increase if AEP Ohio charges CRES  
22 providers \$355 per megawatt day for capacity?

23 A. No, I didn't say that. I'm sorry if I  
24 misspoke, but I said that as energy prices come down,  
25 which we are currently experiencing, there's -- there

1 will be more shopping at higher capacity prices --

2 Q. And, sir --

3 A. -- despite higher capacity prices.

4 Q. -- would you agree with me it's probably  
5 most appropriate to question Mr. Allen on the  
6 forecast for shopping in the AEP territories since he  
7 is, as I believe you've described, the witness on  
8 that subject?

9 A. That's a great idea.

10 Q. Thank you. Given your --

11 A. Policy witness gets to assign other  
12 witnesses, that's the nice thing about this.

13 Q. Given your current oversight of AEP's  
14 regulatory activities before 11 state regulatory  
15 commissions, is it fair to include -- is it fair to  
16 conclude, sir, that you are aware of the regulatory  
17 activities occurring here in the state of Ohio?

18 A. Yes, it is.

19 Q. And in that regard I'm assuming, sir,  
20 that you keep informed of the rate plans of the other  
21 investor-owned utilities here in the state of Ohio?

22 A. Well, I have to be honest with you, just  
23 keeping up with the rate plans of the 11 affiliated  
24 companies and at the FERC is a full-time job but,  
25 yes, I do try to keep up with what's happening not



1     only in Ohio but in the other states. We have  
2     multiple utilities in multiple states.

3             Q.     And, sir, to your knowledge no other  
4     investor-owned utility in Ohio charges CRES providers  
5     for capacity based upon that utility's embedded cost  
6     of capacity, correct?

7             A.     Well, I believe that we are -- will be by  
8     June 15, 2015 -- June 1, 2015, we will all be on the  
9     same model. I'm not sure where the transition to  
10    certain other companies are.

11            For instance, I'm not sure -- I am not  
12    aware what Dayton Power and Light is doing. I  
13    believe they filed an MRO. I'm not sure what that  
14    means at this point.

15            I know Duke has settled and is charging  
16    CRES providers RPM, and I know FirstEnergy charges  
17    CRES providers -- charges RPM pricing.

18            Q.     And, sir, I am going to go back to my  
19    question, if I may. You are not aware of any other  
20    utility in Ohio charging CRES providers a capacity  
21    rate based upon that utility's cost of service,  
22    correct?

23            A.     Correct.

24            Q.     Thank you. And, sir, you are not aware  
25    of the state policies that will guide the

1 Commission's decisions in this -- in this matter,  
2 correct?

3 A. I'm not -- I'm aware of some policies. I  
4 mentioned some policies in my testimony but in  
5 general, I'm not.

6 Q. And the references to state policy in  
7 your testimony, were those as related to you by your  
8 counsel, correct?

9 A. Correct.

10 Q. AEP Ohio's standard service offer or  
11 nonshopping customers are not subsidizing CRES  
12 providers for the use of AEP Ohio's capacity,  
13 correct?

14 A. Well, I mean, we talked about this during  
15 the depositions and, you know, the way I look at it  
16 from a purely financial standpoint is that AEP Ohio  
17 has certain costs that it has to cover. And I'll  
18 stick to the generation side, but I think it also  
19 includes transmission and distribution since we are a  
20 bundled company.

21 And if I'm recovering costs from my --  
22 true costs from my nonshopping load, I am not  
23 recovering my true costs from CRES providers or  
24 shopping load, I would say that there's a subsidy  
25 there on the nonshopping load.

1           Q.   Well, sir, this morning closer in time  
2           than your deposition you've testified that AEP does  
3           not make up the difference in those costs from their  
4           SSO customers, correct?

5           A.   And I'm not suggesting that. I'm just  
6           saying if I have \$2 of cost and I'm only recovering a  
7           dollar, then somebody is subsidizing somebody.

8           Q.   But you are not recovering that  
9           additional dollar --

10          A.   We're not.

11          Q.   -- from SSO customers, correct?

12          A.   We're not. This is a significant loss,  
13          financial harm to AEP Ohio.

14          Q.   Sir, if we could refer to page 10 of your  
15          testimony, please. And I believe you have been  
16          pointed to this sentence beginning on line 2 already  
17          by Mr. Lang that compares and contrasts a long-term  
18          view with the short-term RPM-based pricing. Do you  
19          see that sentence, sir?

20          A.   I do.

21          Q.   And because the RPM pricing is a  
22          three-years forward market, am I correct in assuming  
23          that the reference to long-term here means more than  
24          three years?

25          A.   That's a good assumption.

1           Q.    Thank you.  And AEP Ohio is not intending  
2   to own generating assets as of January 1, 2014,  
3   correct?

4           A.    Well, again, just to clarify, the  
5   objective and the intent is that we will, after this  
6   three-year contract ends and maybe less than three  
7   years now, we are getting into it, but as of June 1,  
8   2015, we will be at the RPM model for capacity and  
9   prior to that, and the only reason why I qualify my  
10  answer is that somewhere prior to that the objective  
11  is, again, to corporate separate and to break the  
12  production pool and then to go to that model we  
13  talked about.

14          Q.    And the objective for corporate  
15  separation from AEP's perspective is January 1, 2014,  
16  correct?

17          A.    Yeah.  That would be certainly the  
18  timeframe.  I mean, I would think that if we could  
19  get through the ESP proceedings and the capacity  
20  proceedings by, you know, the middle of the summer  
21  and we could file our case, it probably will take a  
22  better part of a year to get through corporate  
23  separation.  You are all invited.  I'm sure you'll  
24  all attend.  But it will -- again, it will be a very  
25  litigious case.

1           Q.    But, again, sir, the objective for AEP is  
2 corporate separation by January 1, 2014, correct?

3           A.    No.  Actually the objective would be as  
4 soon as possible, but we are being realistic on a  
5 timeframe, again, because of the difficulties of the  
6 situation.

7           Q.    Sir, you mentioned earlier this morning  
8 that as of June 1, 2015, RPM will be what we receive  
9 as a competitor in the marketplace.  Do you recall  
10 that statement?

11          A.    I do.

12          Q.    And who is the "we" in that statement,  
13 sir?

14          A.    The "we" in that statement is the AEP  
15 Generation Resources Company which will own the  
16 legacy generation from AEP Ohio.  It will include AEP  
17 retail which is our competitive supply retail  
18 supplier and would also include AEP Energy Partners  
19 which is our wholesale competitor.

20          Q.    And I believe the intent of AEP Ohio is  
21 to enter into a purchase power agreement with their  
22 nonregulated affiliate AEP Generation Resources for  
23 capacity between the period of January 1, 2014, and  
24 May 31, 2015, correct?

25          A.    It depends.  The statement is correct,

1 but I'll add it may also include serving the  
2 nonshopping load during some period of time.

3 Q. And is it AEP Ohio's intention that that  
4 purchase power agreement would be priced at the cost  
5 incurred by AEP Generating Resources in operating and  
6 investing in its generating assets?

7 A. Correct.

8 Q. And consistent therewith, sir, I'm  
9 assuming it's also AEP Ohio's intention after the  
10 asset transfer in January of 2014, under its proposal  
11 in this case AEP Ohio will recover those costs of  
12 capacity incurred by its affiliate AEP Generating Re  
13 -- Generation Resources in providing capacity,  
14 correct?

15 A. I think I'm going to need to have that  
16 question reread.

17 Q. I'll rephrase it because I am not even  
18 sure at this point I know what I asked you.

19 A. That's two of us.

20 Q. After asset transfer of January 1, 2014,  
21 it's AEP Ohio's proposal in this case to recover from  
22 CRES providers the cost of capacity -- to recover  
23 through the cost of capacity the embedded costs  
24 incurred by an affiliate AEP Generation Resources in  
25 operating and investing in nonregulated generation,

1 correct?

2 A. AEP's request in this proceeding would be  
3 to receive the embedded costs through the period  
4 whatever either Commission ruled through the period  
5 ending June 1, 2015. I think that answers your  
6 question.

7 Q. And whether that's AEP Ohio's embedded  
8 cost or the embedded cost of a nonregulated  
9 affiliate, correct?

10 A. Well, AEP Ohio may not have any embedded  
11 costs of capacity, so I would say that the embedded  
12 costs follows the legacy generation.

13 Q. Sir, is AEP Ohio a co-owner in generating  
14 assets with other Ohio utilities?

15 A. It is.

16 Q. And are investment decisions in respect  
17 of those co-owned generating assets made by majority  
18 vote?

19 A. Well, my understanding is it's not.  
20 Maybe it should be but my understanding is that the  
21 owner -- there is some kind of a committee, I'm not  
22 that familiar with how the old CCD, which was  
23 Cincinnati, Columbus, and Dayton, operates, but each  
24 of those units is specific -- has specific ownership  
25 rights and I believe there is some operating

1 committee that gets -- gathers and tries to make  
2 decisions. But it's the owner-operator of those  
3 units that have the responsibility to maintain that  
4 unit.

5 Q. So a co-owner non-operator that may have  
6 a majority ownership interest in the plant cannot  
7 compel a particular investment decision?

8 A. You're getting way beyond my knowledge,  
9 sorry.

10 MS. SPILLER: One moment, please, your  
11 Honor.

12 EXAMINER SEE: Yes.

13 MS. SPILLER: Nothing further, your  
14 Honor. Thank you.

15 EXAMINER SEE: Thank you, Ms. Spiller.  
16 Let's go off the record for just a  
17 minute.

18 (Discussion off the record.)

19 EXAMINER SEE: Let's take our lunch break  
20 at this time. It's now 12:52. We will resume at  
21 2:00 o'clock.

22 (Thereupon, at 12:52 p.m., a lunch recess  
23 was taken.)

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Tuesday Afternoon Session.

April 17, 2012.

- - -

EXAMINER SEE: Let's go back on the  
record.

Mr. Darr.

MR. DARR: Thank you, ma'am. Good  
afternoon, and thank you for the lunch break.

EXAMINER SEE: You're welcome.

- - -

# CROSS-EXAMINATION

By Mr. Darr:

Q. Good afternoon, Mr. Munczinski.

A. Good afternoon.

Q. A couple of things came up during your  
prior examination this morning. I want to see if I  
can understand them correctly.

You indicated that you reviewed some  
additional data and information since your deposition  
last week; is that correct?

A. That's correct.

Q. Could you describe for us what it is that  
you looked at since your deposition was taken last  
week?

A. Sure. Well, one thing I went back and I

1 reviewed the current ESP, I guess what's called  
2 ESP II mod filing, get a better feel for the shopping  
3 levels that are in I believe Witness Allen's  
4 testimony.

5 I did also go back to review my testimony  
6 in the ETP case. That was nice to relive history.  
7 Thank you all for that. You know, just -- and just  
8 the daily information that crosses my desk about the  
9 different issues that are involved in not only this  
10 case, in the ESP case.

11 Q. I got the impression that you also in  
12 response to a request I think Ms. Spiller asked you  
13 that you also looked at the current tariffs; is that  
14 accurate?

15 A. No. I hope I said that I didn't really  
16 understand the current -- I'm not familiar with the  
17 current tariffs.

18 Q. At another point in your examination,  
19 again, late this morning, you indicated that your  
20 concern about recovering your -- I believe the term  
21 you used "true costs," which is a term that we hadn't  
22 heard before. I was wondering what you meant by  
23 "true costs."

24 A. I'm sorry. You would have to give me the  
25 context of that statement.

1           Q.    You were being asked about I think it's  
2   the testimony on page 9 and it --

3           A.    I'm sorry, page 9?

4           Q.    Yes.  And you referred to it in part of  
5   your response you stated that you were concerned that  
6   the company be permitted to recover its true costs.

7           A.    I think when I say "true costs," that  
8   would be the embedded costs.

9           Q.    At another point in the examination  
10  earlier today you indicated that you felt that  
11  post -- or after 2014, and again, assuming there is a  
12  separation in 2014 of the generation assets from the  
13  T&D assets, that you expected the embedded costs to  
14  follow the legacy generation.  Do you remember that  
15  testimony?

16          A.    Yes.

17          Q.    Now, as I understand it from the  
18  testimony that you provided in this case and what we  
19  have learned through the ESP filings, you expect  
20  there to be a contract between the generation company  
21  and the T&D company; is that correct?

22          A.    There has to be a contract to cover the  
23  FRR obligation because, remember, the contract for  
24  FRR doesn't expire until May 31, 2015.

25          Q.    And my understanding also is that there

1 would be -- this contract would be necessary to  
2 support the generation component of the standard  
3 service offer as well, correct?

4 A. Correct.

5 Q. Now, with regard to that contract, is it  
6 your understanding that that contract would be  
7 governed by a review process by the Federal Energy  
8 Regulatory Commission?

9 A. That is one of the six contract filings  
10 that we would have to make before the FERC in order  
11 to accomplish this corporate separation merger of  
12 Wheeling with APCo and just -- the new pool,  
13 termination of the old pool, modification of the new  
14 pool, yes.

15 Q. And are you the person we should ask --  
16 let me rephrase that.

17 A. No.

18 Q. Which is why I need to rephrase this.  
19 But I appreciate the levity.

20 A. Sorry.

21 Q. Are you familiar with the standards that  
22 the FERC would use to review that contract between  
23 the AEP generation affiliate and the AEP EDU?

24 A. No. I wish I was though.

25 Q. Now, page 8 in your testimony, if you

1 would turn there, please. You indicate that the  
2 company is facing some significant effects or will  
3 likely have some significant effects from shopping;  
4 is that correct?

5 A. I'm sorry, Mr. Darr. I'm having trouble  
6 hearing you. There is a fan back here. Could you  
7 speak into the microphone?

8 Q. Sure.

9 A. Thank you.

10 Q. You indicate in your testimony I believe  
11 at page 8 that the effects on cost recovery are  
12 significant due to the trend in auction prices going  
13 down and the amount of increased shopping; does that  
14 fairly summarize your testimony on that page?

15 A. That fairly summarizes it.

16 Q. Now, historically shopping on the AEP  
17 Ohio system, by that I mean CSP and OP, was fairly  
18 low until recently, correct?

19 A. Correct.

20 Q. And, in fact, if we wanted to see the  
21 switching rates, one place that we could see the  
22 level of switching that has occurred would be beyond  
23 the Public Utilities Commission of Ohio website that  
24 has the switching rates by quarter, correct?

25 A. That's my understanding, but I've never

1       been to that part of the PUCO site.

2               Q.     And if we wanted to delve into this  
3       further, we should probably talk to Mr. Allen?

4               A.     Correct.

5               Q.     You are somewhat familiar with the  
6       structure of the now-operative ESP, is that fair?  
7       We're talking now about the ESP that was approved in  
8       March of 2009.

9               A.     I'm somewhat familiar with that, sure.

10              Q.     And under that ESP in 2010 and 2011, the  
11       company was authorized to increase the rates that  
12       customers sought; is that fair as well?

13              A.     I'm not familiar with that ESP. My  
14       understanding though is I believe we were allowed to  
15       increase at least the environmental surcharge. I'm  
16       not sure if there was a base rate increase or not.

17              Q.     Would you accept, subject to check, there  
18       were increases in the 68 percent range that were  
19       authorized in that decision?

20              A.     Yes.

21              Q.     And when I say "that decision," I'm  
22       talking about the March 18, 2009, decision  
23       authorizing ESP I?

24              A.     Sure.

25              Q.     Now, the impact on shopping has occurred

1 primarily in the last two years; is that fair to say?

2 A. That's my understanding.

3 Q. And that those changes initially started  
4 in the commercial load and then migrated into the  
5 industrial load; is that also fair?

6 A. That's fair.

7 Q. How familiar are you with the two cases  
8 that were fueled with the Federal Regulatory  
9 Commission concerning -- setting a capacity rate or  
10 capacity price?

11 A. When you say "the two cases," you mean  
12 the two cases filed in November? Or?

13 Q. I believe one was filed in November and  
14 one may have been later than that. November 2010 and  
15 one the following year in 2011?

16 A. I'm somewhat familiar with them.

17 Q. Would you agree with me they were filed  
18 under section 205 of the Federal Power Act?

19 A. I believe there is a 205 filing and there  
20 is -- there's also a 206 filing.

21 Q. Thank you for that correction, yes. The  
22 first one was filed under section 205, correct?

23 A. Yes.

24 Q. And then when that case was dismissed,  
25 AEP filed a second case or AEP Service Corp. filed a

1 second case under section 206, correct?

2 A. I believe the FERC said -- ruled pretty  
3 much against us in the 205 and said that your option  
4 is to file a 206 and invited us to do that, and  
5 that's what we did.

6 Q. Do you know whether prior to filing  
7 either of those cases AEP Ohio initiated discussions  
8 with the PJM independent market monitor?

9 MR. NOURSE: I object.

10 EXAMINER SEE: Basis, Mr. Nourse?

11 MR. NOURSE: I don't know how that's  
12 relevant, and Mr. Munczinski is only saying he is  
13 generally familiar with the filings that were made.

14 EXAMINER SEE: Your objection is  
15 sustained.

16 Q. Do you hold yourself out to be the expert  
17 on the PJM arrangements of the company?

18 A. No, I do not.

19 Q. Who among the witnesses would that be?

20 A. Dana Horton.

21 Q. Would you turn to page 7, line 6 of your  
22 testimony. At that place do you see where you  
23 indicate that the charges are included in retail  
24 rates? Do you see that?

25 A. Yes, sir.



1           Q.    What retail rates are you referring to  
2   here?

3           A.    The argument that we make is that the  
4   sale of capacity and the resale of capacity from AEP  
5   Ohio through PJM through -- to the CRES provider is a  
6   wholesale rate. The contract that we have with the  
7   PJM recognizes that there may be a state mechanism  
8   but the state mechanism in our argument is that it  
9   had to be a retail rate, so let me give you an  
10  example.

11                Let's say everyone in Ohio in our  
12  territory was paying the embedded costs rate of 355.  
13  We could have a shopping credit for people to shop.  
14  We have that as an option in our ESP and that in a  
15  sense would be a retail rate.

16           Q.    So what you're suggesting is that the  
17  Commission would have to authorize a retail rate and  
18  if it did so it should do so authorizing embedded  
19  cost recovery?

20           A.    I think what we're saying is the PUCO  
21  sets retail rates and the FERC sets wholesale rates  
22  and in this case the sale of capacity to a CRES  
23  provider is a wholesale rate.

24           Q.    When you talk about retail rates, you  
25  said just a second ago what you're referring to is

1 rates set by this Commission.

2 A. Correct.

3 Q. Now, are you talking about, for example,  
4 a distribution rate?

5 A. Well, I was speaking more to a retail  
6 rate that would allow, for instance, shopping  
7 customers to pay the rate -- the retail rate, not a  
8 wholesale rate.

9 Q. And how -- how would you propose that  
10 that rate would be structured?

11 A. I don't have a proposal. I'm just saying  
12 those are the two concepts. I'm more here to testify  
13 to the fact that the FERC should be setting the  
14 wholesale rate.

15 Q. You indicated earlier that you weren't  
16 fairly familiar with the tariffs that are under the  
17 current ESP; is that correct?

18 A. I'm familiar with rates, you know, we put  
19 together rates by customer class. I understand those  
20 rates but I do not review the tariff sheets. They  
21 tend to be very voluminous and there are experts in  
22 the company that follow the tariff sheets and make  
23 sure they are being implemented correctly.

24 Q. You currently have a set of distribution  
25 tariffs; is that correct?

1           A.     Correct.

2           Q.     And you have a set of tariffs that would  
3     also include distribution and a retail generation  
4     component, correct?

5           A.     Again, that's my broad understanding of  
6     how the system works.

7           Q.     For those customers that are served by a  
8     competitive retail electric service provider, would  
9     those rates include any component for generation  
10    service?

11          A.     I'm sorry, could you ask that question  
12    again, or have it read to me?

13          Q.     Sure. Is there any provision for  
14    generation service in the tariff that provides for --  
15    for the tariff or portion of the tariff that is  
16    applicable to a CRES customer?

17          A.     It's my understanding that the way this  
18    works is that the contract that we have with PJM is  
19    basically the tariff that PJM bills the CRES provider  
20    and then the PJM collects the money from the CRES  
21    provider and then forwards it on to AEP Ohio.

22                 That charge gets billed to a customer  
23    along with the transmission charge, also approved by  
24    the FERC, and then the distribution charge approved  
25    by this PUCO Commission.

1           Q.    Let's look at it from the eyes of a  
2 shopping customer. Does the tariff that you have  
3 with regard to the services that you provided to that  
4 shopping customer, does that contain any portion for  
5 a generation service?

6           A.    The transmission and distribution tariff?

7           Q.    Yes.

8           A.    I would think not. I'm not sure though.  
9 Again, I think maybe that's a better question for --  
10 for another witness.

11          Q.    And who might that be?

12          A.    Witness Allen or Witness Pearce.

13          Q.    Toward the bottom of I think it's page 7.

14          A.    Yes, sir.

15          Q.    My apologies, I've lost the reference.  
16 Excuse me. It's page 5. At the bottom of page 5 you  
17 refer to a CRES supplier as a middleman. By that do  
18 you mean the CRES supplier is passing on to the AEP  
19 Generation Service capacity provided by AEP Ohio?

20          A.    I believe so.

21          Q.    Now, with regard to the company's  
22 litigation position, you state that any state  
23 compensation mechanism must compensate FRR entities  
24 for capacity costs through charges included in retail  
25 rates. I believe that's on page 7 again. The

1 charges and retail rates that you are referring to,  
2 are those charges that provide AEP Ohio revenue for  
3 the service provided for -- by AEP, correct?

4 A. I'm sorry, you are going too fast. Can I  
5 have the site? It's on page 7?

6 Q. Page 7.

7 A. You said line 4?

8 Q. Yeah.

9 A. And then the question? Can I have that  
10 reread?

11 Q. Sure. These charges aren't retail rates  
12 that you are referring to are the charges that  
13 provide AEP Ohio with revenue for the service  
14 provided by that -- by AEP Ohio, correct?

15 A. I'm sorry, I'm still having trouble with  
16 that question.

17 Q. What I'm seeking to understand, you're  
18 seeking to recover the revenues for the services you  
19 are providing, correct?

20 A. That's correct.

21 Q. You are not seeking to recover revenue  
22 for any other services through this charge.

23 A. That's correct.

24 Q. Now, would you agree that if you indexed  
25 the amount you recover from CRES providers, recovered

1 that same amount through your ESP, you would  
2 essentially be made whole?

3 MR. NOURSE: I object. I think it's a  
4 vague question.

5 MR. DARR: If I may, your Honor, the  
6 point of this is if they are recovering the  
7 amounts -- equivalent amounts, they would be made  
8 whole. That's all I am asking the gentleman.

9 EXAMINER SEE: The witness can respond.

10 A. So if I understand your question, I  
11 apologize if I don't, but if -- if we have two  
12 revenue streams and one revenue stream is from  
13 nonshopping customers that pay the embedded G rates  
14 for generation, and if our shopping customers paid  
15 those same rates through the CRES provider or  
16 whoever, yes, we would be made whole. We would  
17 recover our fully embedded costs.

18 Q. In your current SSO rates, and again, if  
19 you know, that were in effect at the end of the year,  
20 2011, is it your understanding that all the  
21 generation rates were avoidable by shopping  
22 customers?

23 A. I don't know the answer to that question.  
24 I know there are nonbypassable rates and bypassable  
25 rates. Some of them are avoidable and some of them

1 are not. It's sort of a vague question again.

2 Q. Are you suggesting to us that there are  
3 some generation charges that were not avoidable?

4 A. No. I'm saying that I know that there  
5 are different categories and that I'm not aware of  
6 any specific categories. That wasn't the purpose of  
7 my testimony here.

8 Q. Would you agree that you had up until the  
9 order on remand a POLR charge that was included in  
10 your rates? Your SSO rates?

11 A. I would agree with that.

12 Q. And was that avoidable or nonavoidable?

13 A. I don't recall, to be perfectly honest.

14 Q. Subject to check, would you agree that  
15 customers could elect to not pay the POLR service if  
16 they agreed to come back at market?

17 A. I recall --

18 MR. NOURSE: Your Honor, I object. We  
19 are going further down this trail. There is no  
20 particular relevance to Mr. Munczinski's testimony.  
21 Mr. Darr has not made a connection to that.

22 EXAMINER SEE: Would you like to respond,  
23 Mr. Darr?

24 MR. DARR: Yes, ma'am. The point of this  
25 is that -- and I realize Mr. Munczinski is not

1       apparently the expert on the SSO rates. The point of  
2       this is to identify for purposes of the requirement  
3       that the rates be comparable, what are we comparing?

4               And at this point we're having a little  
5       bit of trouble identifying what we're supposed to be  
6       comparing because this witness may not have that  
7       expertise. But clearly it's relevant to the  
8       determination that the Commission has to -- made  
9       under the operable statutes.

10              MR. NOURSE: Your Honor, if I may, I  
11       think he referred these questions to Mr. Allen  
12       relative to the comparability. He was answering a  
13       question Mr. Darr posed.

14              EXAMINER SEE: And the objection is  
15       sustained.

16              Q.     (By Mr. Darr) Mr. Munczinski, you've  
17       indicated we would have to look at the retail rates  
18       to determine -- as part of this overall analysis to  
19       determine what's appropriately -- what's appropriate  
20       for AEP to recover, correct?

21              A.     Correct.

22              Q.     And part of the retail rate is obviously  
23       what you're recovering under the ESP, correct?

24              A.     Correct.

25              Q.     And part of that is the recovery that you



1 have been allowed to -- were allowed to recover  
2 through such charges as the POLR.

3 MR. NOURSE: Well, again, I would object,  
4 your Honor. POLR is no longer in effect. It's not  
5 part of the new ESP. It's not an issue going forward  
6 at this point. I don't know why we're talking about  
7 POLR.

8 EXAMINER SEE: Mr. Darr.

9 MR. DARR: Again, your Honor, No. 1,  
10 obviously the issue here is what is the effect of the  
11 retail rates on the overall recovery.

12 No. 2, if I am allowed to ask a couple  
13 more questions, I think it will become apparent that  
14 there are some problems with what we're attempting to  
15 accomplish here by using the retail rate as our  
16 standard.

17 EXAMINER SEE: And the objection is  
18 sustained.

19 Q. (By Mr. Darr) Have you had an opportunity  
20 to look at the calculations that Mr. Pearce made for  
21 calculating the embedded costs?

22 A. Not in any detail.

23 Q. Are you aware that he used the 2010 FERC  
24 Form 1 rates, FERC Form 1 information?

25 A. I believe that is correct.

1 Q. Embedded in the FERC Form 1 information  
2 that's total company information, correct?

3 A. I don't know the answer to that question.

4 Q. Would you agree that it represents for  
5 AEP Ohio the revenues and expenses associated with  
6 all activities of the company?

7 A. Again, I don't know the answer to that  
8 question. I don't know if it -- if it's limited to  
9 above-the-line costs and revenues or it's total  
10 company. I'm just not familiar with FERC Form 1s.

11 MR. DARR: With the Bench's permission I  
12 would like to have marked as IEU Exhibit 103 an item  
13 that's labeled the Direct Testimony of J. Craig  
14 Baker, Case No. 08-917. The document has been  
15 certified by the Secretary of the Commission as a  
16 true and accurate copy, therefore,  
17 self-authenticating.

18 Q. Do you have in front of you what's been  
19 marked as IEU Exhibit 103?

20 EXAMINER SEE: The exhibit is marked as  
21 IEU Exhibit 103.

22 MR. DARR: Yes. Thank you, your Honor.

23 EXAMINER SEE: The exhibit is so marked.

24 (EXHIBIT MARKED FOR IDENTIFICATION.)

25 Q. (By Mr. Darr) Do you recognize this

1 testimony?

2 A. No, sir.

3 Q. Could you take a brief moment and take a  
4 look at pages 3 through 15.

5 MR. NOURSE: Your Honor, I am not sure we  
6 should take hearing time out with talking about this  
7 prior testimony without understanding why it's even  
8 relevant now.

9 MR. DARR: Well, you will --

10 MR. NOURSE: He said he is not familiar  
11 with it and now he is asking him to read it.

12 EXAMINER SEE: True. You wanted the  
13 witness to review pages 3 through 15?

14 MR. DARR: Yes, ma'am. And to shorten  
15 this up a little bit, because I know this is getting  
16 tedious, I appreciate that, specifically at page 14,  
17 take a look about midway down the page.

18 Q. (By Mr. Darr) Are you ready,  
19 Mr. Munczinski?

20 A. Sure.

21 Q. Mr. Munczinski, as given your involvement  
22 in the current ESP case, you are familiar with the  
23 ESP versus MRO test, correct?

24 A. I am familiar somewhat.

25 Q. And you have in front of you the

1 testimony that's been identified as Mr. Baker's  
2 testimony. Can you identify for us who Mr. Baker is?

3 A. Mr. Baker at this point in time was the  
4 Senior Vice President of Regulatory Services, and I  
5 in January of 2010 took his position after his  
6 retirement.

7 Q. And based on your review of his  
8 testimony, you understand the section I just asked  
9 you to look at was a review of Mr. Baker's testimony  
10 in the prior ESP case, the capability of the ESP  
11 versus -- the MRO versus ESP test, correct?

12 MR. NOURSE: I object, relevance, your  
13 Honor.

14 MR. DARR: If I may, your Honor.

15 EXAMINER SEE: Uh-huh.

16 MR. DARR: As we'll see in a second here,  
17 the company relied extensively on PJM RPM prices for  
18 purposes of determining the ESP versus MRO test.  
19 That's where we're headed.

20 EXAMINER SEE: The objection is  
21 overruled.

22 MR. DARR: Could you read back the  
23 question for Mr. Munczinski, please.

24 (Question read.)

25 A. That's somewhat of a broad question. I

1 will admit to reading the question on page 14 part of  
 2 which says "For example, the market price of the ATC  
 3 Simple Swap was obtained from a third party, publicly  
 4 available market source. The PJM Capacity  
 5 Obligations were calculated using the published  
 6 results of PJM capacity auctions."

7 Q. So for purposes of valuing the test in  
 8 2008, the company was relying on the PJM prices for  
 9 capacity, correct?

10 A. Certainly for the competitive benchmarks.

11 Q. Earlier today you indicated that you  
 12 didn't anticipate the company being required to  
 13 perform any new investment in rate base facilities;  
 14 is that correct?

15 A. I don't recall speaking in terms of rate  
 16 base or making investment in rate base.

17 Q. How about generation, new base load  
 18 generation?

19 A. The company has -- AEP Ohio has no plans  
 20 at this point to invest in base load generation.

21 Q. And, in fact, in your last forecast case  
 22 you indicated that you were in good shape well into  
 23 2015 or 2019, correct?

24 A. I can't testify to the last I guess  
 25 integrated resource planning case. I wasn't involved

1 in that case at all.

2 Q. You referred to the testimony I believe  
3 in the ESP case earlier today, the current pending  
4 ESP case as also indicating that with the transfers  
5 of Amos and Mitchell and with the expected closure of  
6 plants due to environmental, there did not appear to  
7 be a reliability problem; is that accurate?

8 MR. NOURSE: I object. There's no  
9 timeframe in the question.

10 EXAMINER SEE: Rephrase, Mr. Darr.

11 Q. 2015.

12 A. I think my statement was that we have  
13 looked because the staff had concerns about the  
14 transfer of the -- of Amos 3 and Mitchell 1 and 2 and  
15 the retirements due to the EPA regulations that the  
16 staff was concerned that there would be a shortage of  
17 capacity and so we've put together a sheet of  
18 information that suggested that or actually said that  
19 given the AEP zone which, again, includes the OVEC  
20 generation and the Buckeye generation that that zone  
21 post-transfer and post-retirements is actually about  
22 14 percent on, meaning there's 14 percent more  
23 capacity than the current embedded load of AEP Ohio.  
24 So that there should not be a capacity problem.

25 The reason why I hesitate, and I'm trying

1 to be helpful here, when you say "reliability," I  
2 sometimes think of reliability meaning voltage  
3 regulations, things like that, and all of those  
4 issues are up before the PJM mostly due to the  
5 retirement, certainly not because of a transfer.

6 Q. At least with regard to satisfying your  
7 FRR requirement you would be in a position to satisfy  
8 that, correct?

9 A. Through the contract period, yeah. We  
10 would be okay.

11 Q. And thereafter?

12 A. Again, I haven't looked past the '15  
13 auction.

14 MR. DARR: I would like to have marked as  
15 IEU-Ohio Exhibit 104, the item that I just handed to  
16 Mr. Munczinski.

17 EXAMINER SEE: The exhibit is so marked.

18 (EXHIBIT MARKED FOR IDENTIFICATION.)

19 MR. DARR: I'm short one copy, can I get  
20 this to her?

21 EXAMINER SEE: To whom?

22 MR. DARR: The court reporter.

23 EXAMINER SEE: The exhibit has been  
24 marked.

25 Q. (By Mr. Darr) Mr. Munczinski, do you have

1 the exhibit in front of you that's been marked  
2 Exhibit 104?

3 A. I do.

4 Q. Can you identify it for us, please?

5 A. Sure. It looks like the Form 10-K for  
6 American Electric Power Company.

7 Q. Now, there are a number of different  
8 places I would like you to look. Can you identify  
9 what year this was prepared?

10 A. Sure. It is the 2011 10-K.

11 Q. Now, in your testimony you indicate  
12 without appropriate -- and this is line -- page 14,  
13 line 14, without an appropriate and reasonable  
14 compensation mechanism it would be imprudent and  
15 irresponsible for AEP Ohio to invest long-term  
16 capital in an unclear, unstable cost recovery  
17 environment. Do you see that?

18 A. Yes, sir.

19 Q. Now, when this 10-K was filed, it was  
20 filed after the Commission had already made a  
21 determination to reject the stipulation ESP. Are you  
22 aware of that?

23 A. I would have to check that, but subject  
24 to check, I believe it's okay.

25 Q. Take a look at page 19.



1           A.    Yes, sir.

2           Q.    And if you go down to the last sentence  
3           in the section under "Ohio," it identifies that, that  
4           decision, correct?

5           A.    Correct.

6           Q.    And this document also indicated that  
7           currently there was no limitations on the obligation  
8           of Ohio Power Company to provide low cost capacity  
9           rate pricing to alternative suppliers to support  
10          customers switching in Ohio. I think you'll find  
11          that on page 22 under the section entitled  
12          "Competition."

13          A.    I'll need that question restated.

14          Q.    Sure. This document was working on the  
15          belief that there would be no limitation on the  
16          requirement to provide low cost capacity rate pricing  
17          to alternative suppliers to support customers  
18          switching in Ohio, correct?

19          A.    I'm looking for that. If you could help  
20          me out, I would appreciate it.

21          Q.    Sure. Under "Competition" about halfway  
22          down the page, next-to-the-last sentence in the first  
23          paragraph under "Competition."

24          A.    First paragraph, next-to-the-last  
25          sentence, page 22?

1 Q. First paragraph under "Competition."

2 A. Right.

3 Q. Next-to-the-last sentence, I believe.

4 A. "These evolving marketed conditions will  
5 continue to impact Ohio Power results of operations"?

6 MR. NOURSE: Right before that.

7 A. Okay. "Currently, there are no  
8 limitations on the obligation of OPCo to provide  
9 below cost capacity rate pricing to alternative  
10 suppliers to support customer switching in Ohio."

11 Q. Now, if we go to page 43.

12 A. Yes, sir.

13 Q. This shows again in the middle of the  
14 page the anticipated and actual -- or estimated and  
15 actual construction expenditures, correct?

16 A. Yes.

17 Q. And this indicates -- this table is  
18 broken down by individual company within the AEP  
19 system?

20 A. As long as there are registrants.

21 Q. And with regard to Ohio Power Company,  
22 that would be the one listed OPCo, correct?

23 A. That is correct.

24 Q. And the actual expenditures for  
25 construction in 2011 were 460 million and change?

1 A. That is correct.

2 Q. And the estimated construction  
3 expenditures in 2012 were 569 million, correct?

4 A. That is correct.

5 Q. And there is a further breakdown of  
6 historical and projected environmental investments on  
7 page 10. Would you take a look at that, please.

8 A. Yes, sir.

9 Q. And this again is used by registrant,  
10 correct?

11 A. Yes, it is.

12 Q. And Ohio Power would be listed as OPCo  
13 again?

14 A. Yes, it is.

15 Q. And for 2011 it indicates that there are  
16 \$63 million in environmental investments taking  
17 place, correct?

18 A. Correct.

19 Q. For 2012, 122.8 million?

20 A. Correct.

21 Q. For 2013, 187.3 million?

22 A. Estimated, correct.

23 Q. And estimated for 2014, 128.7 million,  
24 correct?

25 A. Correct.

1           Q.    Now, a number of questions have been  
2           presented to you concerning the ongoing use of RPM  
3           since 2007 earlier today and, in fact, the company  
4           has been on -- charging CRES providers the RPM price  
5           since that time and through January 1, 2012, correct?

6           A.    Correct.

7           Q.    And, in fact, it was the company's  
8           position that RPM was a -- excuse me, that RTOs  
9           provided access to economically priced generation  
10          within their footprint to retail and wholesale  
11          customers in 2007, correct?

12               MR. NOURSE:  I'm sorry, Mr. Darr, are you  
13          reading from the 10-K again?  Could you give me a  
14          reference?

15               MR. DARR:  I am just asking for his  
16          opinion, Mr. Nourse.

17               MR. NOURSE:  You were quoting something,  
18          weren't you?

19               MR. DARR:  My notes.

20               MR. NOURSE:  Okay.

21           Q.    That was the position of the company,  
22           correct, that the RTOs provided economically priced  
23           generation within the footprints to retail and  
24           wholesale customers?

25           A.    I have no knowledge of that statement.

1 I am running out of room here, you  
2 realize that.

3 MR. DARR: I would like to have this  
4 marked as IEU Exhibit 105.

5 EXAMINER SEE: I'm sorry, repeat that.

6 MR. DARR: IEU Exhibit 105 is what we're  
7 up to.

8 EXAMINER SEE: The exhibit is so marked.

9 (EXHIBIT MARKED FOR IDENTIFICATION.)

10 MR. DARR: Again, I represent to the  
11 Court this is a certified copy provided by the Clerk  
12 of the Court -- or Clerk of the Commission.

13 Q. (By Mr. Darr) Turning to page 4 of this  
14 document, would you take a look at that,  
15 Mr. Munczinski.

16 A. Yes, sir.

17 Q. And could you agree with me that -- well,  
18 for example, these are the reply comments of the  
19 Columbus Southern Power Company and the Ohio Power  
20 Company in Case No. 07-796-EL-ATA?

21 A. These are the reply comments of Columbus  
22 Southern Power and Ohio Power Company in a open  
23 docket that was studying the head of the bidding  
24 process for EDUs in Ohio.

25 Q. And have you seen these -- these comments

1 before?

2 A. I have.

3 Q. And do they fairly represent the view of  
4 the company in 2007?

5 MR. NOURSE: I object, your Honor. I  
6 don't think the use of the company in a docket,  
7 generic docket that was involving the prior law prior  
8 to Senate Bill 221, you know, under different  
9 circumstances has any relevance to this proceeding.

10 MR. DARR: Naturally, I disagree, your  
11 Honor. Which wouldn't be the first time that I have  
12 disagreed with Mr. Nourse, as we all know.

13 The point of this is that certain  
14 assumptions were made by various parties. We've  
15 delved into those assumptions earlier today. Those  
16 assumptions were based on representations made by AEP  
17 Ohio and for purposes of providing the Commission  
18 with a full and complete record, it's appropriate  
19 that we understand what those working assumptions  
20 were and who was creating those assumptions.

21 MR. NOURSE: Well, again, if I may, your  
22 Honor, working assumptions and positions relating to  
23 the prior law and prior circumstances that are not  
24 applicable any more. I don't see how that's relevant  
25 and productive to talk about it in this current case.

1 EXAMINER SEE: The objection is  
2 sustained.

3 Q. (By Mr. Darr) Could you go to page 12 of  
4 your testimony, line 15.

5 A. Page 12, I'm sorry, what line?

6 Q. 15.

7 A. Thank you.

8 Q. Are you there?

9 A. Yes.

10 Q. Your view is that AEP Ohio would  
11 experience serious financial harm if the rates set  
12 for capacity are based on existing RPM auction  
13 prices; is that correct?

14 A. That's correct.

15 Q. And we talked about earlier that the  
16 source of this concern is that you got lower RPM  
17 prices and more shopping occurring currently,  
18 correct?

19 A. Well, again, it's not only because of  
20 shopping. It's mostly because starting in June the  
21 RPM price is basically nothing, so CRES providers  
22 will be using our capacity for virtually nothing.

23 Q. And if I didn't have any shopping  
24 customers, that wouldn't matter, would it?

25 A. If I didn't have any shopping customers,

1 if everybody was on the SSO load, that wouldn't  
2 matter, correct.

3 Q. So the effect -- the importance of the  
4 lower rate for RPM becomes important because there is  
5 shopping occurring within the AEP service territory.

6 A. Well, I would argue that the price a CRES  
7 provider pays really has nothing to do with shopping.  
8 If you look at the witness Mr. Banks, he states that  
9 shopping in the FE territory has saved \$100 million  
10 and reduced prices by 4 percent. So we're doing all  
11 this shopping to reduce prices by 4 percent?

12 Someone put together the picture here  
13 where I could save maybe \$100 million but AEP has  
14 lost billions of dollars of market value, could  
15 potentially lose thousands of jobs, no, I don't think  
16 shopping has anything to do with what we charge CRES  
17 providers.

18 If the CRES providers want competition,  
19 we will be there after our contracts are finished  
20 June 1, 2015. In the meantime based on our ESP  
21 filing, we are willing to compromise and have open  
22 shopping, have auctions, and get on with this new  
23 regime, which we are perfectly willing to do, but we  
24 are not willing to provide free capacity to  
25 outsiders.



1 Q. Mr. Munczinski.

2 A. Yes, sir.

3 Q. If all of your customers were on the  
4 default service, we wouldn't be here today, would we?

5 A. Correct.

6 Q. So the fact that we're trying to set a  
7 rate for those customers -- for those CRES providers  
8 that are serving shopping customers, that's important  
9 to you today, as you point out in your testimony on  
10 page 8, lines 11 through 13, correct?

11 A. That is the critical question.

12 Q. And, in fact, what we're looking at is  
13 the revenue erosion that's been taking place or which  
14 may take place as pointed out by Mr. Allen, correct?

15 A. Correct.

16 Q. And that revenue erosion is directly  
17 related to the fact that the price of capacity has  
18 gone down.

19 A. Not that simple. Remember, erosion is  
20 due to CRES providers trying to break a contract that  
21 AEP has with PJM and with its own pool members and to  
22 reprice capacity for itself, for its own use, not  
23 guaranteeing that that savings is going to be passed  
24 on to any customer at an auction price that AEP did  
25 not even participate in.

1 MR. DARR: I'm going to go back to my  
2 original line of questions then, your Honor, with  
3 regard to the participation of in support of RPM by  
4 AEP Ohio based on the answer which I just received.  
5 AEP Ohio cannot have it both ways.

6 MR. NOURSE: Your Honor, is there a  
7 question pending? It sounded like a speech to me.

8 MR. DARR: I'm asking permission from the  
9 Court, and I know this is a little unusual. I would  
10 like to return to a line of questions which were --  
11 which I was told was not appropriate when the Bench  
12 sustained an objection. Specifically the questions  
13 with regard to the 2007 position of the company.

14 EXAMINER SEE: You're talking about your  
15 most recent objection?

16 MR. DARR: Yes.

17 MR. NOURSE: I don't know what's changed  
18 since your ruling, your Honor. Mr. Darr has asked  
19 Mr. Munczinski a series of questions about the  
20 relationship of capacity pricing to retail shopping  
21 and then on to revenue erosion questions and  
22 Mr. Munczinski has fully responded to those  
23 questions.

24 Nothing else has changed about your  
25 ruling or the relevance of the 2007 positions in an

1 industry proceeding under the prior law.

2 EXAMINER SEE: The objection stands,  
3 Mr. Darr.

4 Q. (By Mr. Darr) Mr. Munczinski, back in  
5 1999-2000, we talked earlier today about the fact  
6 that the company entered into an agreement by which  
7 it gave up generation transition charges; do you  
8 recall that?

9 A. Yes, sir.

10 Q. And as part of the claim that was  
11 presented by the company, you earlier indicated that  
12 was a lost revenues claim; do you recall that as  
13 well?

14 A. Yes, sir.

15 Q. That lost revenues claim was sponsored by  
16 William Forrester and James Landon. Do you recall  
17 that?

18 A. I believe it's John Landon.

19 Q. John Landon, excuse me.

20 A. I recall Mr. Landon testifying doing  
21 calculations on stranded costs. I'm not -- I can't  
22 recall what Mr. Forrester testified to. He was the  
23 rate director at that time for AEP Ohio.

24 Q. Would the testimony from that case help  
25 refresh your recollection, sir?

1           A.     Sure.

2                     MR. DARR: I would like to have marked as  
3 IEU Exhibit 106.

4                     EXAMINER SEE: The exhibit is so marked.

5                     MR. DARR: Thank you, your Honor.

6                     (EXHIBIT MARKED FOR IDENTIFICATION.)

7           Q.     (By Mr. Darr) If you could take a look at  
8 page 16.

9           A.     Can you point me to a line?

10          Q.     Actually let's do this a little  
11 differently. Could you take a look at page 12, lines  
12 16 and 17. Am I correct in saying at page 12, lines  
13 16 and 17, IEU Exhibit 106, that indicates that the  
14 companies are proposing a revenues lost approach. Do  
15 you see that?

16          A.     I do.

17          Q.     And then you indicated Mr. Landon  
18 provided the workup or calculations for that; is that  
19 correct?

20          A.     The testimony at the bottom of that page  
21 I'll read from, the "Company Witness John Landon  
22 demonstrates that calculating the future economic  
23 value of the generation assets is very difficult.  
24 The calculation of the difference between the lower  
25 market price and the unbundled generation rate is a

1 much simpler calculation and it provides the  
2 Companies an opportunity to recover those stranded  
3 generation asset costs."

4 But I will also remind you that this is  
5 the original testimony filed in the original case and  
6 has no bearing on the eventual stipulation that was  
7 agreed to, and actually I think it was the last time  
8 IEU and AEP agreed to a case where we dropped the  
9 recovery of stranded costs for -- for other issues.

10 Q. And my question goes to what the  
11 calculation was. What the company presented was a  
12 proposal to recover its generation transition charge,  
13 and to calculate that generation transition charge it  
14 was proposing a lost revenues approach, correct?

15 A. What the company proposed is that what  
16 they accepted and agreed to was nothing like that.

17 Q. Okay. You agree what the company  
18 proposed was a lost revenues approach.

19 A. I agree we proposed it in the original  
20 testimony. It was a FERC methodology that we  
21 accepted because of its simplicity.

22 MR. DARR: I would like to have marked as  
23 IEU Exhibits 107 and 108. Again, this is a certified  
24 copy of the testimony of Mr. Landon in Case No.  
25 99-1729-EL-ETP.

1           For purposes of the record let me state  
2           that this is in two pieces because of the way it was  
3           placed on the Commission's website, and the Secretary  
4           of the Commission basically followed that structure  
5           when she certified it, so.

6           MR. NOURSE: Your Honor, if I could  
7           interject for a moment, we are marking a lot of -- a  
8           lot of exhibits here that are voluminous. There's  
9           not been much indication that the witness is familiar  
10          with most of this content.

11          You know, we had earlier, you know,  
12          didn't object to Mr. Munczinski's actual testimony  
13          because it was his from the prior case and the  
14          stipulation he sponsored. You know, we are getting  
15          further into the litigation position in a case that  
16          was some, you know, 12 plus years ago, two iterations  
17          ago in the legal regulatory structure and, you know,  
18          it's one thing for him to be asked a question about  
19          these, but certainly we will be objecting to dumping  
20          all of these things into the record for any kind of a  
21          truth of the matter asserted content.

22          So I would just, you know, I guess I  
23          would make sure that you understand we're objecting  
24          to these -- these exhibits as far as being admitted  
25          into the record, and it might save everyone time and

1 paper just to ask the questions that he's trying to  
2 get to.

3 Most of these examples he's using one or  
4 two page references from a longer document, so. I  
5 want to be on the record as to my timely objection,  
6 your Honor.

7 MR. DARR: Do you want me to respond to  
8 that, your Honor?

9 EXAMINER SEE: If you would like to,  
10 Mr. Darr.

11 MR. DARR: Your Honor, as you know from  
12 the discussions that we've had in the prior briefing  
13 in this matter, one of the questions certainly raised  
14 by the examination earlier today as well is whether  
15 or not there is any entitlement, legal or otherwise,  
16 to recovery of above-market rates.

17 Part of that is premised on the fact that  
18 AEP Ohio has demonstrated this morning, entered into  
19 a stipulation in 2000 for the purpose of determining  
20 its stranded cost exposure.

21 To the extent it is attempting to reopen  
22 that issue here today through its capacity rates  
23 is -- needs to be addressed. These exhibits  
24 demonstrate what the scope of that original claim was  
25 as indicated by the cross-examination this morning,

1     how that claim was resolved, and what I'm providing  
2     here today is the detail through these exhibits of  
3     106, 107, and 108 of how that calculation was arrived  
4     at.

5             In response to Mr. Nourse's comment about  
6     it being used for the truth of the matter asserted, I  
7     think Mr. Munczinski has already indicated it was a  
8     heavily contested issue.

9             I'm not asking the Commission to  
10    determine the amount of the stranded costs. I'm  
11    simply trying to demonstrate this issue has been  
12    addressed and that's the point of these exhibits.

13            MR. NOURSE: If I may, your Honor, the  
14    prior stipulation and the prior testimony of  
15    Mr. Munczinski personally filed, you know, I think  
16    are fair game. He is ready to discuss those.

17            This -- this testimony about the  
18    litigation position preceding that stipulation, you  
19    know, again, with the stipulation and his testimony  
20    supporting the stip -- the question -- the only  
21    proper use in my opinion is to examine the question  
22    of whether enforcing the stipulation relative to  
23    the -- to the agreements that would have any  
24    continuing effect, we'll be debating that. IEU has  
25    put on their own witness to try to address that.



1                   They may be entitled to ask questions to  
2                   the extent of Mr. Munczinski's knowledge, but that  
3                   doesn't mean that we should be dumping in all the  
4                   testimony from that 12-year-old case when  
5                   Mr. Munczinski has not indicated any familiarity with  
6                   the -- with the testimony.

7                   MR. DARR: Mr. Munczinski -- if I may,  
8                   your Honor.

9                   EXAMINER SEE: Mr. Nourse, your objection  
10                  is overruled for now.

11                  Proceed, Mr. Darr.

12                  MR. DARR: Thank you, your Honor.

13                  Q. (By Mr. Darr) Now, that you have had a  
14                  chance to take a look at these exhibits 106 and 107,  
15                  could I ask you to change --

16                  EXAMINER SEE: 107 and 108?

17                  MR. DARR: Pardon me, 107 and 108, thank  
18                  you.

19                  A. I'm sorry, turn to page?

20                  Q. 45. It's contained in the second piece  
21                  in 108.

22                  A. Yes, sir.

23                  Q. Now, the position of the company was that  
24                  the -- and we take it from line 1, was to look at the  
25                  projected net revenues; am I correct in that regard?

1           A.     That's what that line says.

2           Q.     And if we look at on that same page lines  
3     16 through 18, what you are looking at is "The  
4     production assets that are above-market value should  
5     be netted against those below market in determining  
6     each utility's standard generation costs." Correct?

7           A.     That's what that line says.

8           Q.     And this in particular is the claim that  
9     companies settled in the stipulation; am I correct in  
10    that regard as well?

11          A.     Well, I would say that this is one of the  
12    issues that was settled in the stipulation among many  
13    other issues that brought both benefits and costs  
14    to -- to all the parties involved.

15          Q.     Now, specifically with regard to FES  
16    Exhibit 106, do you still have that in front of you?  
17    That's the Stipulation and Recommendation.

18          A.     Yes, sir.

19          Q.     And if we look at Section IV, Generation  
20    Transition Charge, it states there "Neither company  
21    will impose any lost revenue charges (generation  
22    transition charges (GTC)) on any switching  
23    customers."

24          A.     That's what the stipulation says.

25          Q.     And that specifically ties back to the

1 claim made by the company through Mr. Landon with  
2 regard to the lost revenues, correct?

3 A. That's correct.

4 Q. Earlier today you indicated that under  
5 the FRR you have relatively -- you have an obligation  
6 to provide capacity to all of your existing load,  
7 correct?

8 A. Again, we have an obligation to supply  
9 capacity for the load in the five -- four-company now  
10 pool.

11 Q. And that capacity within the AEP  
12 generation fleet, there is an excess of capacity that  
13 can be used for other purposes?

14 A. I'm not sure what you mean by "excess  
15 capacity." I would say that we have an adequate  
16 reserve margin which is required by the PJM for the  
17 generation to serve that load.

18 Q. Are you familiar with the fact that you  
19 also have the ability to sell capacity into the PJM  
20 market?

21 A. The FRR contract limits that entity --  
22 the entity from selling no more than 1,300 megawatts,  
23 of which my understanding is in the current auction  
24 we have zero, so we did not bid any of the 1,300 into  
25 the auction.

1           Q.    And is it also accurate to say that you  
2    have bid it up to some amount of that 1,300 in prior  
3    auctions?

4           A.    Yes.   That was part again of the FRR  
5    contract.

6           Q.    And that's cleared through those auctions  
7    as well, correct?

8           A.    Cleared through.

9           Q.    That's cleared through the auctions, some  
10   or all of that 1,300?

11          A.    I would assume some of that got cleared,  
12   but again, that 1,300 is the AEP East companies, not  
13   necessarily just AEP Ohio.

14          Q.    I understand.

15          A.    Because we look at it, again, as a whole  
16   entity and that's basically what the contract called  
17   for.

18               MR. DARR:   Okay.   Thank you very much.

19               EXAMINER SEE:   Those are all the  
20   questions you have, Mr. Darr?

21               MR. DARR:   Yes, ma'am.

22               EXAMINER SEE:   Mr. Kurtz.

23               MR. KURTZ:   Thank you, your Honor.

24                               - - -

25

CROSS-EXAMINATION

By Mr. Kurtz:

Q. Good afternoon Mr. Munczinski.

A. Good afternoon, Mr. Kurtz.

Q. I want to ask you some questions about some of the dialogue you had with Mr. Darr about the wholesale retail jurisdiction between this Commission and FERC and the PJM tariff.

Do you recall stating my understanding of AEP's position is that FERC has jurisdiction to set the wholesale rate between -- for capacity between AEP Ohio and the CRES providers and your position is 355 a megawatt day; am I correct so far?

MR. NOURSE: Just object to the extent you are asking his lay understanding --

MR. KURTZ: Yeah.

MR. NOURSE: -- of our position?

Thank you.

A. That's my lay understanding of the position.

Q. Okay. And then you went on to describe what the state compensation mechanism means, and you used as an example this Commission could implement a shopping credit as state compensation mechanism, correct?

1           A.     Correct.

2           Q.     Okay.  And, for example, in your ESP you  
3     had the main proposal and then an alternative  
4     proposal, the alternative add the shopping credit  
5     concept.

6           A.     Correct.

7           Q.     Okay.  Let's assume that the -- that is  
8     correct and the FERC did authorize \$355 a megawatt  
9     day that AEP could charge CRES providers.  Couldn't  
10    the Ohio Commission get to a result -- any result,  
11    let's just say the result proposed by staff, the  
12    number by staff, \$144 per megawatt day but simply  
13    imposing that 211 per megawatt day shopping credit.

14                    You charged the CRES providers 355 as you  
15    say the law requires and then under the state's  
16    authority they implement a credit of \$211 a megawatt  
17    day, which I understand from your testimony is  
18    allowable, and they get to the staff's result, for  
19    example?

20           A.     I can't give you a legal answer.

21           Q.     If you are correct in your understanding  
22    of the interplay between the Ohio Commission and  
23    FERC, couldn't that be an outcome --

24           A.     So the FERC would -- would rule that the  
25    CRES providers pay \$355, our embedded costs, and what

1 would happen to the --

2 Q. The shopping credit under the state  
3 authority would be \$211 a megawatt day or any amount.

4 A. So that the customer would get the  
5 shopping credit and then the CRES provider would deal  
6 with the customer directly.

7 Q. Yes, as I understood -- yes.

8 A. Yes. That is one of the options that we  
9 put -- pretty close to one of the options we put  
10 forward.

11 Q. Okay.

12 A. But we limited also to a dollar value.

13 Q. I understand that was your proposal, but  
14 I'm just trying to understand if the Commission has  
15 authority to implement or impose a shopping credit,  
16 it could essentially get to -- to a result the  
17 staff's proposal or any proposal by -- by that  
18 mechanism just by determining the shopping credit to,  
19 again, to the end result the Commission wanted to get  
20 to.

21 MR. NOURSE: Your Honor, I just object.  
22 You know, again, this is a matter that's a complex  
23 hypothetical that involved a lot of other moving  
24 parts.

25 Mr. Kurtz seems to be examining one piece

1 and then asking him for a -- whether the Commission  
2 has authority to do something without knowing the  
3 rest of the pieces. You know, I think it's -- I  
4 think it's an improper hypothetical and tends to ask  
5 a legal question.

6 MR. KURTZ: Your Honor, I am comfortable  
7 with the record the way it stands on this point so I  
8 can move on.

9 EXAMINER SEE: Thank you.

10 Q. (By Mr. Kurtz) Let's assume that the Ohio  
11 Commission has the authority to impose a shopping  
12 credit. Let's just use the same example, this  
13 hypothetical, you charge the CRES providers 355 and  
14 customers get a shopping credit of 211, so that the  
15 net cost to consumers is 144, the number calculated  
16 by staff.

17 Do you understand -- it's hypothetical.  
18 Do you understand the numbers?

19 A. Okay.

20 Q. Okay. Does AEP have a business  
21 presence -- let's just assume you were only going to  
22 get 144 per megawatt day for your capacity.

23 Do you have a business preference as to  
24 whether you would charge CRES suppliers 355 and then  
25 there would be a shopping credit or the CRES



1 suppliers paid 144 directly to AEP Ohio with no  
2 shopping credit? Is there a business preference  
3 between those two models?

4 A. I think, you know, the question before  
5 the Commission or both Commissions will be, you know,  
6 the equity between what we recognize as the three  
7 parties that are involved here, CRES providers that  
8 want to discount off the SSO load and, again, I  
9 mentioned the Witness Banks' testimony that in  
10 their -- FES territory, FirstEnergy territory, people  
11 are getting a 4 percent discount.

12 Yet depending on what you pay for  
13 capacity, that value, certainly not 4 percent but a  
14 lot of value could be going directly to the CRES  
15 providers at the expense of the customers.

16 So what you're getting to is in ESP  
17 treatment of how the capacity rolls into the ESP and  
18 what we have proposed is obviously a way to protect  
19 customers to provide for adequate shopping and  
20 provide the company with stability of earnings,  
21 financial stability, and yet move on to a competitive  
22 world when these contracts roll out.

23 What we don't want to do is provide the  
24 CRES provider with free capacity and then have them  
25 turn around and only provide a 4 percent discount to

1 the customers.

2 Q. That's what I was getting at. That would  
3 be a windfall benefit to the CRES providers with  
4 minimum savings to the consumers.

5 A. Correct.

6 Q. That's why I'm asking you do you have a  
7 business preference assuming you are only going to  
8 get 144 for your generation. Wouldn't you rather  
9 charge the CRES 355 with a large shopping credit so  
10 that the benefit goes to the consumer rather than  
11 charge the CRES 144 where they can have a miniscule  
12 discount off of the SSO and have the CRES provider  
13 pocket the lion's share of the savings?

14 A. That would be my recommendation.

15 Q. Would that be better for consumers with  
16 that structure?

17 A. Certainly would.

18 Q. Would it be better for the economy if the  
19 savings went to consumers rather than the CRES  
20 suppliers?

21 A. I believe it would be.

22 Q. You're the policy witness for AEP?

23 A. Thank you.

24 Q. The -- would you turn to page 14 of your  
25 testimony.

1           A.    Yes, sir.

2           Q.    Okay.  The Q and A beginning on line 15  
3   you're asked the question "Many Ohio CRES providers  
4   have expressed concern with allowing the company to  
5   recover its capacity costs and how that might impact  
6   competition within the state of Ohio.  How do you  
7   respond?"

8                   Before getting into your response, am I  
9   correct that's the only place in the AEP testimony in  
10  this case where the effect on competition is  
11  addressed?

12           A.    Well, that's the only place I now know  
13  of.

14           Q.    So the lion share, the bulk of the  
15  testimony, is how AEP should be compensated, why you  
16  are entitled to a cost base rate, why it's 355 and  
17  maybe all system sales are reduced, but this is the  
18  only place where the effect of this case on consumers  
19  is addressed in the AEP case, isn't it?

20           A.    To my knowledge, yes.

21           Q.    Okay.  Your response is essentially that  
22  it provides for -- you can go ahead and read, it's a  
23  short answer -- a more level playing field and it  
24  will eliminate the subsidy the CRES providers would  
25  get by getting free capacity.

1           So, again, the effect on competition is  
2 really mostly from AEP's perspective about having you  
3 not subsidize your competitors. It's not really from  
4 a consumer perspective.

5           A. That's true, and I think that if you are  
6 familiar with the editorial that was in The Dispatch,  
7 I think they said it very well, if you are going to  
8 harm a large competitor like AEP, do you really have  
9 true competition?

10          Q. But shouldn't the Commission be concerned  
11 with the effect of this case on -- on competition  
12 from a consumer point of view, what it will do to the  
13 ability to shop, what it will -- how much savings  
14 might be there in the consumer point of view?

15          A. Well, the company's very concerned and as  
16 I am sure the Commission should be concerned about --  
17 about the customer. We saw that there was  
18 customer -- negative customer reaction.

19                 We tried to fix that in the new ESP by --  
20 by having higher charges to the CRES providers and  
21 providing a stability rider for the customers that's  
22 fairly low, so we think we have a fair and balanced  
23 approach.

24          Q. Okay. I'm talking about this case here,  
25 the capacity case, the 2929, this is the only place

1     you address the effect of your proposal on  
2     competition, and your answer is couched in terms of  
3     what it will do to AEP vis-a-vis the CRES, not what  
4     it will do to consumers; isn't that right?

5             A.     Well, again, depending on what the  
6     Commission rules on the capacity rate, it may not  
7     harm consumers. It may not harm CRES providers. It  
8     may only harm the company.

9             MR. KURTZ: Your Honor, if I could  
10    approach the witness, I would like to have marked as  
11    OEG Exhibit I guess 101. We have one set of direct  
12    testimony.

13            EXAMINER SEE: Okay.

14            (EXHIBIT MARKED FOR IDENTIFICATION.)

15            Q.     (By Mr. Kurtz) Mr. Munczinski, let me  
16    just describe this document. This is a document that  
17    the -- this Commission filed with the FERC in the  
18    I'll call it the parallel FERC case where the  
19    capacity issue is being addressed.

20            A.     Yes, sir.

21            Q.     Okay. I don't know if it's the 205 or  
22    206 case you referred to earlier, but this is -- this  
23    is a document of this Commission and I would like to  
24    ask you a couple of questions about it.

25            A.     Yes, sir.

1           Q.    Okay.  Page 4 in the yellow highlight,  
2           the sentence begins in the middle "Contrary to PJM's  
3           allegations, which intimate that the state determined  
4           capacity charge shall be pursuant to cost, none of  
5           the Ohio Commission's actions regarding these matters  
6           have been inconsistent with the RAA FRR tariff  
7           provisions.  Indeed, the Ohio Commission is unaware  
8           as to where in the PJM RAA FRR tariff a state  
9           established cost based mechanism requirement is set  
10          forth."

11                   Do you understand -- would it be fair for  
12          an interpretation of those words to mean that this  
13          Commission does not believe that cost is required but  
14          I guess is an option?

15           A.    I think.

16                   MR. ROYER:  I am going to object to this.  
17          He is asking the witness to speculate what the  
18          Commission means.

19           Q.    I will ask you what your --

20                   MR. ROYER:  What the Commission's  
21          interpretation.

22           Q.    What's your interpretation --

23                   EXAMINER SEE:  I'm sorry, I could not  
24          hear you, Mr. Royer.

25                   MR. KURTZ:  I'll rephrase the question.

1           Q.    What's your interpretation of those  
2 words?

3           A.    Well, I think that the staff and the  
4 Commission, PUCO Commission, they were reacting to a  
5 filing made by the PJM so it's sort of an interesting  
6 event we have here.

7                       We have the two parties to the contract,  
8 AEP and PJM, agreeing that -- that we have an issue  
9 here that PJM states that's consistent with the  
10 intent of that section that we're discussing that  
11 will compensate AEP for the cost to satisfy its FRR,  
12 so it brings in the term "cost" recognizing that that  
13 section allows for cost.

14                    It also goes on to say that we're not  
15 sure if this state mechanism that we've instituted  
16 here really meets the terms of the agreement so,  
17 again, it's sort of interesting, you have the two  
18 parties to the contract, I'm not a lawyer, again, but  
19 I remember my business law and meeting of the minds,  
20 yet we have third-party CRES providers coming in  
21 saying no, no, no, that's not what anybody meant.  
22 They meant RPM pricing.

23                    Because as we have evolved through this  
24 issue of going to competition for the last, as we  
25 said 13 years, AEP wants to go to competition. AEP

1 had corporate separation approved by the FERC. IEU  
2 objected to it. They fought that corporate  
3 separation. They wanted us to remain, you know,  
4 together.

5 We had the Commission come out and say  
6 that FRR is fine. We had the Commission order us not  
7 to go to market. We had the Commission order us to  
8 buy Mon Power and now when -- when the CRES providers  
9 see the free capacity, almost free, it's \$20, \$26,  
10 they all jump in and say, oh, that's not contract,  
11 yet we have PJM and AEP saying yeah, that is the  
12 contract.

13 MR. DARR: Objection, your Honor. Move  
14 to strike. Reason for the motion to strike is as  
15 follows: I was specifically told not to inquire as  
16 to -- with regard to any of the things that happened  
17 since 2007 and now we have gotten this rendition from  
18 the witness basically outlining the various intents  
19 of every party under the sun since probably, oh,  
20 2000.

21 I'm struggling with how this is playing  
22 itself out, your Honor. Either -- either this stuff  
23 comes in or it doesn't, but at this point it's  
24 becoming very problematic.

25 MR. ROYER: I'll join in the motion to



1 strike on the additional ground that obviously  
 2 he's -- his opinion is a legal opinion as to what the  
 3 parties -- what the meeting of the minds of the  
 4 parties. And not only that he is being asked to  
 5 interpret what the Commission meant by the  
 6 statement -- by the statement as previously cited. I  
 7 don't think that's -- that is not within the purview  
 8 of this witness's testimony.

9 EXAMINER SEE: Did you want to respond,  
 10 Mr. Nourse?

11 MR. NOURSE: Yes, thank you. First of  
 12 all, I disagree with Mr. Darr's premise the rulings  
 13 earlier about the 2007 statements were related to  
 14 that particular document and that particular docket.  
 15 And Mr. Darr as well as Mr. Lang and others have been  
 16 asking questions about the ETP cases, you know, all  
 17 day, and Mr. Munczinski answered all those questions  
 18 to the best of his ability.

19 So the current question Mr. Kurtz was  
 20 exploring these comments which several questions were  
 21 asked. It certainly relates to the proceedings that  
 22 have been discussed in detail in testimony in this  
 23 case on the record today, and his account was not a  
 24 legal rendition, it was a very factual rendition.

25 And based on AEP's perspective, the

1 dynamics of the current -- of the current dispute as  
2 reflected in these comments, so I think it's an  
3 appropriate response to the question that was posed  
4 by Mr. Kurtz.

5 EXAMINER SEE: First as to the  
6 allegation, it was -- the objection raised as to  
7 whether Mr. Munczinski was giving a legal opinion, he  
8 indicated initially that it was his opinion. It was  
9 not a legal -- a legal opinion and that is not what  
10 Mr. Kurtz requested.

11 Mr. Darr's objection that Mr. Munczinski  
12 is now bringing in prior -- is including as part of  
13 his answer information that Mr. Darr was not  
14 permitted to bring in over an objection --

15 MR. DARR: Your Honor, I am going to take  
16 you off the hook on this one. I am going to withdraw  
17 my objection as to that prong of it.

18 EXAMINER SEE: Okay.

19 MR. KURTZ: May I continue, your Honor?

20 EXAMINER SEE: Yes, Mr. Kurtz.

21 Q. (By Mr. Kurtz) To add to the peculiarity  
22 to this situation a little further, not only AEP doe  
23 and PJM -- you may have a contract but your -- but  
24 PJM is regulated by FERC and AEP Ohio is regulated by  
25 this Commission and FERC and this is your regulator.

1 This isn't the staff weighing in at FERC. This is  
2 the Commission.

3 A. That's true.

4 Q. So -- okay. Let me -- let me refer you  
5 to the -- to the first part of this highlighted  
6 paragraph.

7 MS. SPILLER: Your Honor, I'm sorry, if I  
8 may. I understood Mr. Royer had an objection as well  
9 to move to strike this testimony as nonresponsive and  
10 certainly I think beyond the bounds of the question  
11 that was posed to Mr. Kurtz, and before Mr. Kurtz  
12 proceeds, I was just hoping to get the Bench's ruling  
13 on that objection.

14 MR. KURTZ: Could I respond to that?

15 EXAMINER SEE: Go ahead, Mr. Kurtz.

16 MR. KURTZ: This whole -- this goes to  
17 the heart of the -- heart of what this Commission is  
18 being asked to consider here. The interplay  
19 between -- should it be call -- should it be  
20 something else? Who's got jurisdiction? What does  
21 the state mechanism mean?

22 This is -- this is the Commission telling  
23 FERC what it thinks on those issues. There couldn't  
24 be anything more relevant in this case.

25 MR. ROYER: Your Honor, please, for

1 example, what we have got here is clearly friendly  
2 cross. He is trying to make this witness his own  
3 witness, but he's using completely leading question  
4 to set up this witness for a yes or no answer.

5 If he wants to -- what we just had was a  
6 speech, would be appropriate for a brief in  
7 interpreting this, but for him to put that in the  
8 record and ask the witness if he agrees with it  
9 when -- when it's not adverse is -- is inappropriate.

10 MR. KURTZ: Your Honor, our position is  
11 that AEP should not be compensated at their  
12 calculation of costs. We have a witness who  
13 testifies to that. We are not a friend to AEP on  
14 this matter.

15 None of these questions are intended to  
16 be friendly or leading. It's intended to be I think  
17 helpful to the Commission to address these very  
18 complex issue. That's all that I am trying to do.

19 MR. NOURSE: Your Honor, I would just add  
20 in response to Ms. Spiller's comment, I believe  
21 Mr. Royer joined Mr. Darr's motion which was  
22 subsequently withdrawn. And Mr. Kurtz was permitted  
23 to continue on that basis.

24 EXAMINER SEE: What shows in the  
25 transcript is that Mr. Royer added an additional

1 ground on the fact that the witness had intended to  
2 offer a legal opinion, Mr. Kurtz circled back and  
3 said he is asking for his opinion, and subsequently  
4 the objection was withdrawn, so I don't see a  
5 question -- or objection outstanding.

6 MS. SPILLER: May I so raise one, your  
7 Honor?

8 EXAMINER SEE: Restate it.

9 MR. NOURSE: After the answer has been  
10 given?

11 MS. SPILLER: I think this -- I realize  
12 it' a bit unorthodox in terms of evidentiary  
13 proceedings, but the question that was asked of the  
14 witness was his opinion of highlighted text in an  
15 exhibit. And while he may have offered his opinion  
16 as to the limited text in the exhibit, your Honor, he  
17 then pontificated upon the motivations of CRES  
18 providers, he pontificated as to the motivations of  
19 PJM in respect of the complaint case that's  
20 proceeding before the FERC, and I think those --  
21 those answers are well beyond the limited scope of  
22 the question.

23 And certainly I think the point is well  
24 taken that due to -- although Mr. Kurtz may have a  
25 witness who offers a contrary position, he, in fact,

1 has allowed this witness to testify on issues that  
2 are supportive of AEP's position thereby resulting in  
3 what I think could fairly be described as friendly  
4 cross-examination.

5 So on two grounds we would make an  
6 objection moving to strike the responses of the  
7 witness, that they are beyond the question posed by  
8 Mr. Kurtz and also resemble friendly  
9 cross-examination.

10 MR. NOURSE: Your Honor, first of all,  
11 the question was not a limited question. "What do  
12 those words mean to you" is not a limited question.  
13 On the contrary it's wide open.

14 As far as, you know, saying  
15 Mr. Munczinski is pontificating, he was asked to give  
16 his opinion and so he was explaining the factual and  
17 contextual background for his opinion and so, again,  
18 I think it's appropriate. It's already been on the  
19 record.

20 We were moving forward so I don't think  
21 it makes sense to try to go back and consider  
22 striking that.

23 MR. KURTZ: And, your Honor, if I may  
24 just add one thing, I don't mean to be flippant about  
25 this, but I think that once the concept comes up as

1 to who should -- who should be the beneficiary of  
2 load capacity costs, the consumers or the CRES  
3 suppliers, or what is AEP's preference, that was an  
4 earlier line, that seemed to have woken up the CRES  
5 suppliers into not liking this examination. So it's  
6 not really so much friendly to AEP as pro consumer  
7 and not so pro CRES provider.

8 MR. ROYER: With respect to that we will  
9 have an opportunity to inquire of the witness. That  
10 was an appropriate question. I didn't have any  
11 problem with that.

12 We have an opportunity to inquire of the  
13 witness further about that response, but the  
14 platitudes that were just put into the record by the  
15 lengthy question of Mr. Kurtz and then asking the  
16 witness to agree can be nothing other than friendly  
17 cross, even though on other issues there may be  
18 differences.

19 MR. NOURSE: Your Honor, there is --

20 EXAMINER SEE: Thank you for that. It's  
21 gone on long enough. The objection is overruled.

22 Mr. Kurtz, continue with your  
23 questioning.

24 MR. KURTZ: Thank you your Honor.

25 MS. SPILLER: Thank you, your Honor.

1           Q.     (By Mr. Kurtz) Mr. Munczinski, the first  
2     two sentences of that highlighted paragraph and then  
3     the highlighted portion on page 5 and then the  
4     highlighted portion on page 6 of the Commission's  
5     conclusions, did you have a chance during this break  
6     to review those -- those highlighted sections?

7           A.     I did.

8           Q.     Is it fair to characterize your  
9     understanding of this -- of the Ohio Commission's  
10    assertions to FERC that the Ohio Commission is  
11    endeavoring to do two things in a balancing act;  
12    promote competition, yet provide a compensation rate  
13    that allows the electric utility provider to attract  
14    capital investment?

15          A.     I agree. I believe that the  
16    Commission -- the Ohio Commission is -- is about  
17    promoting fairness and competition.

18          Q.     Now, is it fair to characterize AEP's  
19    testimony in this case, the capacity case, 2929, as  
20    really focusing only on the second prong of that, the  
21    financial integrity of AEP Ohio, the durability to  
22    attract capital, and really you have one Q and A  
23    about the effects on competition in your entire  
24    direct case of all the AEP witnesses. So isn't it  
25    fair to say you've concentrated on just one impact of



1 the Commission's balancing test?

2 MR. NOURSE: I would just object to the  
3 notion that's the only place we've addressed  
4 competition as Mr. Graves also does that, but with  
5 that understanding, I don't have any further  
6 objection to the question.

7 A. I'm sorry, I've lost my train of thought.

8 Q. Is it fair to say the AEP testimony  
9 focuses on the effect of this case primarily on its  
10 finances rather -- rather than a second lesser  
11 concern on the effect of competition?

12 MR. DARR: Before he answers is there an  
13 objection pending or not?

14 EXAMINER SEE: Mr. Nourse objected.

15 MR. NOURSE: It was a clarifying  
16 objection. I think Mr. Kurtz moved on based on that  
17 and didn't have a problem with it.

18 EXAMINER SEE: The objection was just  
19 noted. Go on, Mr. Kurtz.

20 A. It's fair to say that, you know, I would  
21 add that what we're obviously attempting to do here  
22 is to set a fair compensation for the company's  
23 capacity.

24 And I would say that obviously for all of  
25 us it's somewhat difficult to disengage this case

1 with the ESP case where there is many more issues and  
2 perhaps more reasons to get into that case, sort of  
3 clarify this case with a cost-based rate until the --  
4 that case is adjudicated and gets on.

5 Q. Just so I understand, is it fair to say  
6 the AEP testimony in this case focuses on --  
7 primarily on the effect of the case onto its  
8 financial integrity or its ability to track capital  
9 rather than the effect on competition.

10 A. I would say that's the purpose of the  
11 case as the Commission has ordered us all to come in  
12 and address the capacity issues -- cost issue.

13 Q. And, of course, as we learned, the  
14 Commission is telling FERC it's got these dual  
15 competing balancing considerations.

16 A. Correct.

17 Q. I want -- one last line of questioning on  
18 really what is compensatory. You are aware of the  
19 return on equity assumption built into Mr. Pearce's  
20 cost-based calculation?

21 A. Correct.

22 Q. It's 11.15 percent return on equity.

23 A. That's my recollection.

24 Q. Now, under your structure that would be a  
25 three-year fixed calculation, therefore, a three-year

1 fixing of the return on equity at that level, 11.15  
2 percent?

3 A. The equity would be fixed at that point.

4 Q. And I think you testified earlier and you  
5 referred back to Mr. Allen's testimony in the ESP  
6 case that the generation cost, the \$355 per megawatt  
7 day that you are asking CRES suppliers to pay, is  
8 roughly equivalent to what nonshopping consumers are  
9 paying in the SSO rates; is that correct?

10 A. That's what Mr. Allen testifies to.

11 Q. So 355 is the number and you are asking  
12 CRES suppliers to pay at a 11.15 percent ROE and  
13 that's what's built into the SSO rates; is that fair?

14 A. Again, we haven't determined what's built  
15 into the SSO rates, but we can do a simple  
16 calculation that suggests that those rates, SSO  
17 rates, plus the 355 look similar.

18 Q. So that would then suggest that you are  
19 earning 11.15 percent return on equity from your  
20 nonshopping customers on the generation investment?

21 A. That could be true.

22 Q. You're the head regulatory person for all  
23 of AEP East? I may have your title slightly wrong.

24 A. I am the head regulatory person of East  
25 and West.

1 Q. That's the 11 instead of the 4.

2 A. Correct.

3 Q. So you're familiar with the earnings in  
4 the rates of Appalachian Power, Indiana Michigan,  
5 Kentucky Power, and AEP Ohio?

6 A. I am.

7 Q. Okay. Now, those -- the other AEP East  
8 utilities are fully regulated other than AEP Ohio?

9 A. We consider that fully regulated, yes.

10 Q. Indiana and Michigan in Michigan but  
11 Kentucky and Appalachian Power are regulated by West  
12 Virginia and Virginia?

13 A. Correct.

14 Q. Now, are you aware of what the regulated  
15 returns that those utilities earned per books  
16 unadjusted in the FERC Form 1 and the SEC 10-K, what  
17 those regulated utilities earned in 2010 --

18 MR. NOURSE: Your Honor, I object.

19 MR. KURTZ: I'm sorry, Mr. Nourse.

20 Q. -- which is the same test year Mr. Pearce  
21 used?

22 MR. NOURSE: Your Honor, I object. The  
23 other companies referred to vertically integrated and  
24 regulated and traditional regulation states and have  
25 a number of facts and circumstances that may be

1 different. As you know, ROE is set based on  
2 particular cost of capital for a company so I submit  
3 that has no relevance to this proceeding.

4 MR. KURTZ: Your Honor, if --

5 EXAMINER SEE: Go ahead and respond,  
6 Mr. Kurtz.

7 Mr. Kurtz, you were going to respond?

8 MR. KURTZ: Yes. I was just going to say  
9 that Mr. Munczinski is -- has raised the effects of  
10 this case on those other operating companies in terms  
11 of the allocation of profits from off-system sales  
12 member load ratio issue Mr. Lang discussed earlier,  
13 and I think I couched my question in terms of they  
14 are fully regulated by those various jurisdictions  
15 and accepting that difference in the operations.

16 I just want to ask about the returns  
17 earned by the sister companies of AEP Ohio.

18 EXAMINER SEE: Your objection -- the  
19 objection and your response is on the record, but we  
20 are having a slight technical issue. Let's take a --  
21 let's take a 10-minute break.

22 (Recess taken.)

23 EXAMINER SEE: Let's go back on the  
24 record.

25 Just before the break there was an

1 outstanding objection by Mr. Nourse in regards to the  
2 return on equity of the other pool -- pool agreement  
3 members. The objection is overruled.

4 Mr. Munczinski, you can answer the question.

5 THE WITNESS: Could I have the question?

6 Q. Are you familiar with the actual earned  
7 returns on equity that Appalachian Power, Kentucky  
8 Power, and Indiana Michigan earned 2012, the same  
9 test year Mr. Pearce used in his calculation where  
10 he -- for capacity?

11 A. I look at the -- is this on? I look at  
12 the returns every month so, yes, I am familiar with  
13 them, but I have not committed them to memory.

14 Q. Okay. Is it fair based upon your memory  
15 that none of the regulated affiliates of AEP Ohio in  
16 2010 earned anywhere close to the 11.15 percent ROE  
17 that AEP is requesting in the capacity -- this  
18 capacity case?

19 A. No. That's not true. Let me explain a  
20 couple of things. One is we're asking for an 11.15  
21 percent return fixed over the period so we take  
22 the -- we take the risk of something, an unknown,  
23 that can happen.

24 Secondly, it is on a more risky business.  
25 I think we will all admit generation is much more

1 risky business than T&D. But also we have not  
2 provided a return on equity witness in this case.  
3 We've -- we relied on the testimony of -- of our  
4 return witness, Mr. Avera.

5 We use the same return that we requested  
6 in the D case this past year, and to your point we've  
7 asked the other commissions for the same returns and  
8 we have been awarded close to those returns,  
9 certainly somewhere between, you know, 103, 105, if I  
10 recall what you're looking at, and if you are relying  
11 on Witness Collins' testimony, you are looking at --  
12 and he states here it is an unadjusted return, so in  
13 those years where we had severance costs, storm  
14 damage, we may write those costs off, and they don't  
15 get reflected in what I would call a regulatory  
16 return.

17 It wasn't more than six, nine months ago  
18 when certain parties were threatening a -- to show  
19 cause in Kentucky, so I think you have to realize  
20 that there is a regulatory turn -- return, it's the  
21 same we asked here, we ask the same in every state.  
22 We earn close to those returns in the other states  
23 but the per books returns is very different than the  
24 earned regulatory return.

25 Q. Okay. Let me restate my question or ask

1 it again and ask you to answer it this time, that  
2 isn't it true that in 2010, none of the regulated  
3 affiliates per books is what they reported on the  
4 FERC Form 1 and SEC Form 10-K in 2010 was anywhere  
5 close to the 11.15 percent ROE you are asking for  
6 here the earned return actual?

7 A. And let me -- the reported return, true,  
8 but that's of no consequence to this proceeding.

9 Q. And the same is true in 2011?

10 A. For the non-AEP Ohio company AEP Ohio in  
11 2011 has earned between 10 and 11 percent.

12 Q. I meant for the affiliated companies,  
13 Appalachian, Indiana.

14 A. Again, I don't have those records in  
15 front of me but I recall that there's very few  
16 companies that are earning below 10. I mean,  
17 Appalachian Power now is closer to 9. Kentucky Power  
18 was 11. Indiana Michigan was below 10, but it has a  
19 major rate case in effect now and I -- you understand  
20 the term regulatory lag.

21 Q. Let me -- one thing you mentioned earlier  
22 was the risk associated with owning generation.  
23 Isn't it true that under your proposal here that  
24 there would be no risk and that your return would be  
25 locked in at the 11.15 percent?



1           A.    No, it's not true.  There's still major  
2 risks in owning generation.

3           Q.    Future risks, past risks, current risks?  
4 During the three-year period under review you would  
5 be locking in a guaranteed 11.15 percent ROE, would  
6 you not, on your generation that you provide to CRES  
7 suppliers?

8           A.    I would enjoy 11.15 percent return today,  
9 but if the interest rates in the next 6 months, 12  
10 months go up, I may not even see 11 point -- I may  
11 not even see 9 percent.

12                   I am taking the risk of an inflationary  
13 economy, inflationary economy taking the risk of, you  
14 know, EPA actions that could affect my O&M, taking  
15 the risk of labor O&M.

16           Q.    And by the same token you would get the  
17 benefit of reduced expenses that AEP Ohio might  
18 implement in that three-year period?

19           A.    That's true too, but that's also  
20 additional risk.

21           Q.    And the rate base -- the rate base that  
22 this calculation was based on would depreciate each  
23 of those years as well to offset your costs to  
24 offset --

25           A.    Again.

1 Q. -- the rate base?

2 A. It may not provide me with full  
3 compensation of the retirements I need for the EPA  
4 because of EPA actions.

5 Q. Do you think in setting the state  
6 compensation mechanism rate here the Ohio Commission  
7 should endeavor to ensure that Ohio consumers do not  
8 overcompensate AEP?

9 A. Well, I think that's a mechanism that we  
10 have again offered in the ESP rate in the ESP case  
11 where we say that we look at the net revenue  
12 approach. Witness Allen says that, and I know your  
13 witness has another approach to that, a very similar  
14 mechanism but much more complicated.

15 Q. I'm talking about in this capacity case,  
16 not the ESP, should the Commission endeavor not to  
17 overcompensate AEP?

18 A. Yes. I would think this Commission would  
19 set fair, reasonable rates.

20 MR. KURTZ: Thank you, your Honor.

21 EXAMINER SEE: Ms. McAlister.

22 MS. McALISTER: Thank you, your Honor.

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CROSS-EXAMINATION

By Ms. McAlister:

Q. Mr. Munczinski, you've talked a number of times today -- do you need the mic?

A. Closer, yeah, please. The further you guys get down the road here the harder it is to hear.

Q. I'm hoping that it's so short it doesn't matter.

EXAMINER SEE: Ms. McAlister, would you prefer this type?

MS. McALISTER: Sure.

MS. SPILLER: Your Honor, we have one going down.

Q. (By Ms. McAlister) Ready?

A. Uh-huh.

Q. Can you hear me now?

A. I can.

Q. Okay. You've talked a number of times today about AEP's plan to use the RPM auction to determine the price for capacity for 100 percent of AEP Ohio's load beginning in June -- on June 1, 2015. Do you recollect those discussions?

A. Correct.

Q. And this is AEP Ohio's plan regardless of the outcome of this proceeding; is that correct?

1           A.    Well, that's an interesting question in  
2   that our objective obviously is to have either the  
3   PUCO, the FERC, or both give us our cost base  
4   capacity, and then I would hope that this Commission  
5   would be fair and reasonable in -- in the ESP case.

6                   And if all of that comes true, then we  
7   obviously would file at the FERC for corporate  
8   separation, pool termination, and then start the  
9   auctions as of June 1, 2015, earlier if the ESP is  
10  accepted.

11           Q.    Sir --

12           A.    It's a hypothetical question, obviously.  
13  We have to take one step at a time, but that would be  
14  our plan. I mean, we are, again, for competition,  
15  and we commit to that.

16           Q.    Okay. I just want to make sure I got  
17  your answer. Are you saying that if you got an  
18  outcome either from this Commission or from the  
19  Federal Energy Regulatory Commission that was  
20  unfavorable regarding the capacity costs that you  
21  requested, that you may not go forward with the plan  
22  to go to competition as of June 1, 2015?

23           A.    Again, I think my overall answer is I  
24  don't know what would happen. I would have to seek  
25  the advice of management, obviously.

1           When you say if we don't get a favorable  
2 outcome, does that mean all of our capacity is at RPM  
3 and we suffer the financial harm that Witness Allen  
4 has in his testimony? Are we allowed to corporate  
5 separate? We have that issue in front of the  
6 Commission.

7           Are we allowed to move those plants to  
8 preserve the other companies? What will the other  
9 companies do when they don't have -- when they don't  
10 have enough capacity to serve their load?

11           You know, I'm struggling with that  
12 question. I mean, again, we are committed to  
13 competition. There is no doubt about that and we've  
14 laid that plan out in both the FERC and at the PUCO.

15           MS. McALISTER: I have no further  
16 questions, your Honor.

17           EXAMINER SEE: Mr. Yurick.

18           MR. YURICK: No questions, your Honor.  
19 Thank you.

20           EXAMINER SEE: Mr. Sugarman.

21           MR. SUGARMAN: Thank you, your Honor.

22                               - - -

23                               CROSS-EXAMINATION

24 By Mr. Sugarman:

25           Q. Good afternoon, sir. My name is Roger

1 Sugarman. I represent NIFB Ohio. We have not met  
2 before today.

3 I have a few questions for you. Inviting  
4 your attention to page 10 of your direct testimony,  
5 sir, first full sentence that appears there which  
6 reads "Second, cost-based compensation...."

7 A. I'm sorry, can I just have a second.

8 Q. Yeah. Let me know when you get there.

9 A. Page 10, first line?

10 Q. It's actually in the second line. It's  
11 the first full sentence of the page.

12 A. Okay.

13 Q. You have been asked a couple of questions  
14 about this sentence about cost-based compensation  
15 representing a long-term view of affordable and  
16 reliable capacity for Ohio con -- customers in  
17 contrast to the short-term RPM-based pricing.

18 Who are the Ohio customers that you are  
19 referring to in that sentence?

20 A. They are our Ohio customers.

21 Q. So does that include residential  
22 customers?

23 A. Yes.

24 Q. And it includes commercial class  
25 customers?

1 A. Yes.

2 Q. All classes?

3 A. All classes, that's correct.

4 Q. And industrial customers as well?

5 A. Certainly.

6 Q. And how does cost-based compensation  
7 provide an affordable capacity for those particular  
8 customers as contrasted with the RPM-based pricing?

9 A. Well, again, our argument is that our  
10 rates are affordable at a cost-based level. What  
11 we're dealing with here is an attempt to reprice the  
12 capacity at an auction price that we did not even  
13 participate in.

14 Q. So "affordable" as used in this sentence  
15 is not the same as "competitive," correct? It's not  
16 talking about competitive pricing for this reliable  
17 capacity for the customers referred to in this  
18 sentence on page 10?

19 A. Correct.

20 Q. Then if you will, sir, on page 16 of your  
21 testimony, you -- let me know when you get there.  
22 I'm sorry.

23 A. If you can speak just a little bit closer  
24 to the mic.

25 Q. I'm as close I can get without eating it.

1 A. Oh, okay.

2 Q. Don't, please.

3 A. I don't suggest that.

4 Q. We've never met before.

5 A. Short on mics here.

6 Q. We are. Okay.

7 Let me know when you get to page 16 on  
8 line 10.

9 A. Page 16, line 10.

10 Q. Right.

11 A. Sure. Okay.

12 Q. You've testified up here for the  
13 Commission in some questions both to Mr. Kurtz and  
14 Ms. McAlister this additional issue of what is in the  
15 best interest of Ohio and retail customers of Ohio.  
16 You talked about being for competition. Do you  
17 follow that testimony give and take?

18 A. Correct.

19 Q. And just to set the stage, I'm going to  
20 ask you to go back to page 3 of your testimony and  
21 line 3 where you describe yourself as the "overall  
22 policy witness supporting AEP Ohio's position that it  
23 should be allowed to collect its capacity costs from  
24 Competitive Retail Electric Service providers." Do  
25 you see where I read from, sir?



1           A.    Yes.

2           Q.    Now, with those two statements from your  
3 testimony and context, how, if at all, will the  
4 overall AEP Ohio position that you're supporting  
5 either incent customer choice or promote competition?

6           A.    Well, again, the best example I can give  
7 you is the editorial in The Columbus Dispatch when  
8 they came out and said if you destroy a major  
9 competitor by -- by doing financial harm to them,  
10 which we testified would happen with the RPM pricing,  
11 then you really don't have competition, do you? You  
12 know, we're not -- you don't want shopping for  
13 shopping purposes.

14                   We could auction off all the customers in  
15 Ohio to the generators in Indiana and Pennsylvania.  
16 What we want is we want to be able to have  
17 financially stable competitors to be as efficient as  
18 possible and set a true market, not an artificial  
19 market. That's all this testimony is saying.

20           Q.    How, if at all, does your testimony  
21 support the position that if the Commission were to  
22 grant the relief sought by the company in this case,  
23 that there would be any incentive to customer choice?

24           A.    Well, again, we don't know but we also  
25 don't know there wouldn't be shopping at the 355

1 level with energy prices today, and some of our  
2 secured tariffs, particularly in the commercial  
3 class, there certainly is going to be shopping.

4 Q. So do you believe purchasing a 355 versus  
5 the RPM is a better opportunity for -- for customers  
6 in a competitive marketplace and represents a better  
7 choice and option for them?

8 A. It's certainly a better choice for the  
9 company and for our customers than providing a  
10 windfall profit for CRES providers who are not  
11 passing through in all instances the savings as we  
12 saw in the FirstEnergy situation, they were getting a  
13 4 percent discount.

14 Q. Sure. You know, that wasn't my question  
15 and I'm not asking about the -- for CRES providers.  
16 That is not who I represent. I'm interested in the  
17 end user who is interested in a competitive choice  
18 and incentive for choice, and I'm simply asking  
19 whether the relief sought by the company in this case  
20 in your view, in your opinion, company's opinion  
21 would promote that customer choice or provide them  
22 the best competitive opportunity in the marketplace.

23 A. I think the best competitive opportunity  
24 in the marketplace in the long run would be to the  
25 financially stable competitors. And AEP would like

1 to be one as soon as our contracts are completed and  
2 we can compete on a level playing field with the  
3 other parties that have separated their generation  
4 that have established retail providers and have gone  
5 through their own transition periods.

6 No one had a three-month transition  
7 period. FirstEnergy certainly didn't have that.  
8 They've delayed their corporate separation, if you go  
9 back in the past, and we're just asking for equal  
10 treatment.

11 Q. And you believe that that equal treatment  
12 occurs three years from now?

13 A. Yes, we do.

14 Q. And that's based upon the various  
15 assumptions that are built into the testimony as to  
16 what three years from now would look like?

17 A. Correct.

18 Q. And are there situations that you  
19 considered between now and three years hence that  
20 would prevent that competitive environment from  
21 occurring so that the consumer, the end user, the end  
22 consumer has that choice in the best competitive  
23 marketplace?

24 A. Yeah, and I think that's where we get  
25 into the realm of the ESP.

1 Q. We don't need to replot that ground.

2 MR. SUGARMAN: That's all the questions I  
3 have. Thank you, sir.

4 THE WITNESS: Thank you.

5 EXAMINER SEE: Mr. Royer.

6 MR. ROYER: Thank you. Quit hiding out  
7 in the back row.

8 - - -

9 CROSS-EXAMINATION

10 By Mr. Royer:

11 Q. I just have a couple of questions for  
12 you, sir.

13 A. Sure.

14 Q. In response to Ms. McAlister's inquiry  
15 about whether or not -- whether your commitment  
16 was -- was firm that in 2015 we would move to an  
17 auction, I'm somewhat confused. You are committed  
18 now to -- to go to RPM in 2015, correct?

19 A. We are.

20 Q. So what would you do in 2015 other than  
21 go to auction? If there was something that happened  
22 in the intervening period that -- that wasn't --  
23 didn't conform to your expectations?

24 A. Well, again, given the experience of the  
25 last year, I would say that anything can happen in

1 Ohio and I'm just being cautious. We are committed  
2 to doing that. We've stated that in our ESP case.  
3 We have applied for RPM status at the P -- PJM.

4 So I -- I hope that nothing holds us up  
5 but, again, we have to go through a number of -- of  
6 regulatory hurdles to get where we want to be.

7 Q. Can you -- can you withdraw your  
8 commitment to go to RPM at -- FERC I mean?

9 A. Better question for Mr. Horton, but I bet  
10 we can't.

11 Q. Okay.

12 A. Knowing PJM.

13 Q. Now, do you have an -- you touched on  
14 this earlier in some of your answers, but do you have  
15 an opinion as to why shopping particularly with  
16 respect to residential customers has been so slow to  
17 develop in AEP's service area compared to the other  
18 EDUs?

19 A. That's another great question for Witness  
20 Allen, who seems to be my expert on -- our expert on  
21 shopping levels. But I will tell you that we do know  
22 that there are some residential customers that have  
23 old rates that after 800 kWh of use they pretty much  
24 pay fuel at this point.

25 Q. So you would agree, wouldn't you, with me

1 that at least one of the most significant factors is  
2 the level of rates, the level your retail rates were  
3 so low that competitive suppliers just couldn't  
4 compete against them, correct?

5 A. Our retail rates were so low because of  
6 our efficiencies and there was no need for a customer  
7 to look elsewhere.

8 Q. Well, your -- but again those rates are  
9 regulated by the Commission, correct?

10 A. Well, they were regulated by all the  
11 Commissions and all the rates were pretty close  
12 across the AEP footprint.

13 Q. No, you misunderstood me. I'm talking  
14 about not that other AEP companies in other  
15 jurisdictions. I'm asking about why shopping was so  
16 slow to develop in AEP Ohio versus some of the other  
17 service -- versus in the service territories of other  
18 Ohio EDUs.

19 And I was suggesting that the reason was  
20 that the -- that the -- that the SSO rates that were  
21 set by the Commission the fall rates were so slow the  
22 CRES providers really couldn't compete against them.

23 A. Well, right but, again, the reason why  
24 they were set so low is because I believe the  
25 efficiency of the AEP system and, yes, even if you

1 look at we were looking at recently the distribution  
2 and nonbypassable rates of the utilities in Ohio and  
3 AEP Ohio, both Ohio Power and Columbus Southern  
4 Power, have among -- even with the increase that's  
5 suggested in -- requested in the ESP among the lowest  
6 wire charges in the state.

7 Q. And I didn't mean to criticize. I am  
8 just asking you wouldn't that be a factor as to why  
9 there -- significant reason why there has been  
10 competition and especially residential competition  
11 has been slow to develop in AEP's service territory?

12 A. I'll agree with that.

13 Q. Okay. And that would be certainly having  
14 a -- be a bigger factor, would it not, than  
15 whatever -- whatever was out there in terms of  
16 capacity charges for -- for CRES providers that  
17 wanted to provide service in your territory?

18 A. I don't think I understand that question.

19 Q. Well, it's not a function -- for  
20 example -- well, would you agree that it's -- that  
21 the CRES providers will be subject during that  
22 period -- were subject to the same capacity charges,  
23 correct? In AEP Ohio's service territory?

24 A. Again, I'm sorry, I'm confused with that  
25 question. You are saying the CRES providers would be

1 subject to the same capacity as what?

2 Q. No. Versus vis-a-vis each other.

3 A. Oh, true. If a CRES provider was out  
4 there, you know, let's use a good example, AEP  
5 Retail, FirstEnergy, if they were out there, they  
6 were all getting the RPM rate. They all enjoyed that  
7 RPM rate.

8 Q. Okay. Now, with respect to your  
9 conversation with Mr. Kurtz, as I understand it, you  
10 indicate that as a business -- from a business  
11 standpoint, your preference would be that -- that  
12 the -- be authorized to charge the 355-megawatt day  
13 and then that -- and then that customers receive a  
14 direct credit or to reduce what they would -- what  
15 they would pay, and even though you would be -- well,  
16 reduced what they would pay. Do I understand that  
17 correctly?

18 A. Again, you know, don't be confused by my  
19 answer. We have an ESP proposal before this  
20 Commission and we're behind that proposal. That  
21 proposal does not have 355. What we are asking for  
22 in this case is the 355.

23 What we're -- are asking for the  
24 Commission to be is fair in how it treats both the  
25 customer, the CRES provider, and the company, and how



1     it then fosters competition but not provide the CRES  
2     providers with the windfall.

3             Q.     Well, I guess that's -- that was the term  
4     I had a problem with. So you believe -- well, first  
5     of all, can you explain to the Examiners roughly  
6     what -- what the 355 charge, megawatt per day charge  
7     translates to in terms of the kWh charge?

8             A.     Be about 20 -- depending on the load  
9     factor, between 20, \$22 per megawatt hour.

10            Q.     Okay. But can you translate it to a kWh  
11     amount?

12            A.     Not easily.

13            Q.     Okay. All right. So but your  
14     principle -- one of your concerns is that if that  
15     the -- if the charge is set lower than what you  
16     perceived to be the correct -- your correct cost,  
17     that the CRES providers will simply line their  
18     pockets with the difference and the customers won't  
19     benefit; do I summarize that correctly?

20            A.     Well, I would say that CRES providers  
21     would receive, you know, a margin. Unless they  
22     provide the customers with that benefit, they will  
23     receive a high margin, and I don't want to use the  
24     word "line their pockets," but they would enjoy a  
25     fair margin.

1           Q.   Well, but it's true, is it not, that not  
2           only will CRES providers be competing against AEP  
3           Ohio SSO, whatever it is, they will also be competing  
4           with each other, correct?

5           A.   That's correct.

6           Q.   And if -- and if a CRES provider were to  
7           elect to pocket this -- pocket this and another CRES  
8           provider were to pass it through, the CRES provider  
9           that passed it through would likely be the winner of  
10          the competition, correct?

11          A.   The only loser then would be the AEP  
12          company, which would then hurt our competitiveness in  
13          the marketplace.

14          Q.   I guess --

15          A.   So wouldn't have all the competitors  
16          being treated equal.

17          Q.   But vis-a-vis each of these providers  
18          would still have every incentive to pass it through  
19          if they wanted to increase their market share,  
20          correct?

21          A.   Well, again, I am not sure what would  
22          happen to our competitive arm if, one, we don't have  
23          our generation free; two, we are financially harmed.  
24          So, no, we are a very large competitor in this state.  
25          We have a huge responsibility to that load and to be

1 a competitor.

2 There are many small competitors that  
3 don't equal what FirstEnergy and AEP retail have the  
4 capability of doing.

5 Q. I appreciate that. But if they can't  
6 match -- if they can't match the price of the  
7 other -- if the -- of the other CRES providers, they  
8 can't -- and if they are unwilling to pass through  
9 what you've described is a -- I guess you said not a  
10 windfall but a subsidy, was that your word?

11 A. That's correct.

12 Q. If they didn't pass that through to  
13 customers, pretty soon they wouldn't have any  
14 customers; is that true?

15 A. I don't know. Again, I challenge you to  
16 look at the FirstEnergy Solutions' testimony where  
17 they've only passed through 4 percent discounts.

18 MR. HAYDEN: Your Honor, I move to  
19 strike. Again, this is a mischaracterization of  
20 FES's testimony among many times today.

21 MR. NOURSE: Your Honor, I think he's  
22 clearly responding to the question as to whether  
23 Mr. Banks stated 4 percent statement, I believe it's  
24 in his testimony. So in any event, he stated that's  
25 his understanding of Mr. Banks' testimony.

1 EXAMINER SEE: The objection is  
2 overruled. It's been stated and you'll have an  
3 opportunity to clarify it if you believe necessary  
4 when your witness is on the stand.

5 MR. ROYER: Thank you. That's all I  
6 have.

7 EXAMINER SEE: Mr. Campbell.

8 MR. CAMPBELL: We have no questions.

9 EXAMINER SEE: Who is doing the cross for  
10 OCC?

11 MS. KERN: Me, your Honor.

12 EXAMINER SEE: Okay, go ahead.

13 - - -

14 CROSS-EXAMINATION

15 By Ms. Kern:

16 Q. We just had a few questions.  
17 Mr. Munczinski, the cost of capacity is not the only  
18 factor that AEP Ohio should consider when deciding  
19 whether to invest in new generation for Ohio, right?

20 A. Very general question, but I could agree  
21 with that.

22 Q. Okay. What other consideration should  
23 the company take into account?

24 A. I believe the -- what I would call  
25 integrated resource process so that what we would

1     need to do is look and see what the demand supply  
2     relationships are. Is there a need for capacity? Is  
3     there financing ability for new capacity? Is there  
4     technology that's changing? Can we develop shale gas  
5     formations that we enjoy in Ohio, West Virginia?

6             Q.     Would revenue streams from energy sales  
7     be a factor that the company should consider?

8             A.     Well, of course, any -- anyone who is  
9     going to build an asset power plant or any other  
10    asset is going to have to consider the revenue  
11    streams to cover the costs of that asset.

12            Q.     How about revenues from ancillary  
13    services?

14            A.     Well, I mean, there is a lot of products  
15    that are out there. I'm not that familiar with all  
16    of the PJM products but ancillary services there must  
17    run unit charges. There's a lot of revenue streams  
18    that one could get from their generation if they are  
19    smart about it.

20            Q.     So the cost of capacity is not the sole  
21    factor to consider when the company is considering  
22    whether to invest generation in Ohio?

23            A.     Well, obviously if -- you know, I am not  
24    going to build a nuclear plant if gas is on the  
25    margin, if that's what you mean.

1           Q.    No. My question is the cost of capacity  
2 isn't the only factor to consider.

3           A.    No, I've said it's not.

4           MS. KERN:   Okay. Thank you. No further  
5 questions.

6           EXAMINER SEE:   Is Mr. Stinson in the  
7 room?

8                   Counsel for Ohio Farm Bureau Federation?

9                   A.I.C.U.O., counsel for A.I.C.O.U.?

10                  Counsel for Grove City?

11                  On behalf of staff?

12           MR. JONES:   No questions, your Honor.

13           EXAMINER SEE:   Commissioner Porter.

14           COMMISSIONER PORTER:   Sure, just a couple  
15 of quick questions, just things that I want to better  
16 understand.

17                               - - -

18                               EXAMINATION

19   By Commissioner Porter:

20           Q.    Page 11 of the -- of your testimony,  
21 Mr. Munczinski, you talk about the unsustainability  
22 of -- of RPM-based capacity rates. You see that in  
23 the testimony?

24           A.    Can you help me with a line?

25           Q.    I'm sorry, lines 3 and 4. Start at line

1 3 and 4.

2 A. Yes, sir.

3 Q. Okay. Just help me understand so the RPM  
4 rates are unsustainable to the company, is that who  
5 we are referring to or are they unsustainable to  
6 somebody else?

7 A. The sentence basically, again, the  
8 argument that the RPM capacity auction rate is so low  
9 in the next two years that it provides one a subsidy  
10 to the CRES providers in an unreasonable and  
11 unsustainable financial event for the company.

12 Q. So it's a characterization of RPM is just  
13 unsustainable for a timeframe and not unsustainable  
14 based upon its constructs, is it you're suggesting  
15 that the RPM rates are just unsustainable for the  
16 next few years?

17 A. Correct.

18 Q. Is that correct?

19 A. Correct. Even though I will add, we're  
20 hoping that the PJM does something with the RPM rates  
21 that provide us a better price, lower price signal.

22 Q. That would be helpful.

23 Describe what, you know, you've testified  
24 I think earlier that I think this three-year  
25 construct makes it difficult to continue to accept

1 RPM. Is that the only thing that needs to be changed  
2 about RPM?

3 A. Probably not. I mean that's probably a  
4 better question for Witness Horton but, you know,  
5 Commissioner, you are probably aware of the issues in  
6 New Jersey and Maryland where -- they may have some  
7 different issues where their prices are a little  
8 higher than here, but certainly we are all hoping  
9 that in a competitive market if we are going to be  
10 using the RPM methodology, that this is a little bit  
11 longer price signal, term price signal, so that we  
12 can get financing to build new generation and maybe  
13 enjoy, as I said, some of the shale gas and maybe  
14 some people will take a risk of building.

15 There's always that risk person out there  
16 that does that, so I'm not suggesting that won't do  
17 that, but I think for us, more conservative company,  
18 we like to see a little more certainty in the prices

19 Q. So beginning with the 2015-2016 delivery  
20 period, the company is committed to participate in  
21 the BRA which will occur next month for that '15-'16  
22 delivery period?

23 A. Absolutely.

24 Q. And at this point in time presumably the  
25 company has made -- AEP Ohio has made a determination



1 that during that delivery period the RPM will be  
2 sustainable for the company?

3 A. We are taking that risk. We are hoping  
4 that, you know, the unsustainable portion was based  
5 on the recession so there was a lot of load that was  
6 lost. I mean we lost a tremendous amount of load.

7 We have still not gotten back to -- our  
8 industrial load is about 95 percent of where it was  
9 in the '06 period, so we are seeing it come back so  
10 we are hoping that the RPM prices we saw the last  
11 auction go from \$26 -- 126-dollar range so we are  
12 starting to see a more -- a higher level at a  
13 sustainable level.

14 Q. So if there is no change to the RPM with  
15 regard to the short-term nature of the auctions and  
16 the outlook in terms of how far forward you can  
17 determine what the rates are, there's no change to  
18 that and no other changes to the RPM for the 2016 and  
19 2017 period if rates continue to be, you know, at  
20 a -- at a level that are unacceptable, will there  
21 still be this unsustainability for the company going  
22 forward?

23 A. Well, certainly will be a financial  
24 reaction to that. I mean, we'll obviously not be  
25 able -- we know what our costs are. Our costs aren't

1 going to disappear quickly. We may be able to reduce  
2 them over time. But the result would be a financial  
3 harm to the company.

4 Q. So would the reaction be to become a --  
5 an FRR or similar entity that's not a -- a company  
6 that participates in the BRA going forward?

7 A. Well, as I understand it, the commitment  
8 to move to RPM is a five-year commitment.

9 Q. Okay. Thank you.

10 Let me -- there was a line of questions  
11 earlier from one of the counsel regarding the  
12 deadline for CRES suppliers to self-supply their own  
13 capacity.

14 A. Correct.

15 Q. That deadline apparently for the current  
16 timeframe has expired. I'm sorry, for -- for the --  
17 I'm sorry, the 2015-2016 delivery period, that  
18 deadline has expired.

19 A. Well, that's an interesting question  
20 because the line of questioning was this three-year  
21 window, so if you wanted to self-supply your shopping  
22 load starting June 1, for instance, 2012, you would  
23 have had to have elected in 2009.

24 And even though we saw shopping increase  
25 and increase, we have yet to see any CRES providers

1     come to us, as far as I know come to us and say, hey,  
2     we are going to self-supply our load. So we're not  
3     sure why that happens but it's happened.

4             Q.     If it were to be suggested that CRES  
5     suppliers wanted to self-supply for, you know, the  
6     current timeframe and moving forward, would that be  
7     acceptable to the company?

8             A.     That would be in violation of our  
9     contract with the PJM so I'm not sure what the effect  
10    would be, but certainly they -- well, now it's going  
11    to get to the point where we're committed to auction  
12    off so it's a nonevent in a sense.

13            Q.     That contract, can it be modified?

14            A.     I am assuming that any contract can be  
15    modified, certainly.

16            Q.     Okay. All right.

17            A.     There would be an effect because, one, we  
18    have a pool and that's another issue.

19            Q.     All right. And just so I understand, I  
20    think there was the FES Exhibit 104 and this was the  
21    pooling arrangement that includes Columbus Southern  
22    Power and Ohio Power Company.

23            A.     Yes, sir.

24            Q.     And there was a line of questions  
25    regarding Article 12 in that pooling arrangement. I

1 think you'll recall that the discussion was with  
2 regard to the ability to modify the pooling  
3 arrangement, and as I read the document, it looks  
4 like there is a 90-day timeframe prior to the  
5 beginning of any calendar year during which any of  
6 the members of the pooling arrangement could seek a  
7 modification for the following calendar year?

8 A. Correct.

9 Q. Is that your understanding?

10 A. Yes.

11 Q. Okay. So you could have for AEP Ohio  
12 requests made to the other members of the pooling  
13 arrangement that's given 90 days prior to the  
14 beginning of January 1, 2013, to have a modification  
15 beginning January 1, 2013?

16 A. Well, that's an interesting question too  
17 because we've already given ourselves termination  
18 notice. So the pool terminates automatically on  
19 January '14. To request the modification in the  
20 interim I guess it would be -- it would be okay but I  
21 will advise you that the last time we even attempted  
22 to change the pool it took two years.

23 So there's a lot of parties involved, a  
24 lot of wholesale customers that would need to be  
25 involved and it's a very difficult issue.

1 COMMISSIONER PORTER: Okay. Thank you.  
2 That's all I have.

3 EXAMINER SEE: Mr. Nourse, any redirect?

4 MR. NOURSE: Yeah, just a couple of  
5 items, your Honors. Could we have a short recess to  
6 get organized?

7 EXAMINER SEE: Ten minutes. Let's go off  
8 the record.

9 (Recess taken.)

10 EXAMINER SEE: Let's go back on the  
11 record.

12 Mr. Nourse.

13 MR. NOURSE: Your Honor, the company has  
14 no redirect. Thank you.

15 I renew my motion for admission of  
16 Company Exhibit 101.

17 EXAMINER PARROT: Are there any  
18 objections to the admission of AEP Exhibit 101?

19 MR. LANG: No, your Honor.

20 EXAMINER PARROT: Seeing or hearing none,  
21 AEP Exhibit 101 admitted into the record.

22 (EXHIBIT ADMITTED INTO EVIDENCE.)

23 EXAMINER PARROT: FES, would you care to  
24 move your exhibits?

25 MR. LANG: Yes, your Honor, we move

1 Exhibits 104 through 108.

2 EXAMINER PARROT: Are there any  
3 objections to the admission of FES Exhibits 104  
4 through 108?

5 MR. NOURSE: Yes, your Honor, just give  
6 me a second. Can we go through them individually?  
7 Okay 104 is the interconnection agreement, no  
8 objection.

9 EXAMINER PARROT: Any other objection?

10 MR. NOURSE: I'm sorry, your Honor, I am  
11 trying to respond.

12 EXAMINER PARROT: I just want to take  
13 them one at a time.

14 MR. NOURSE: I'm sorry, thank you.

15 EXAMINER PARROT: Any other objection to  
16 Exhibit FES 104 from any of the other parties?

17 FES Exhibit 104 is admitted.

18 (EXHIBIT ADMITTED INTO EVIDENCE.)

19 EXAMINER PARROT: Next, Mr. Nourse.

20 MR. NOURSE: No objection.

21 EXAMINER PARROT: Any other -- I'm sorry,  
22 any objections to FES Exhibit 105?

23 Seeing none, FES Exhibit 105 is admitted.

24 (EXHIBIT ADMITTED INTO EVIDENCE.)

25 MR. NOURSE: And I believe next is the

1 stipulation 106 from the ETP, correct? And I don't  
 2 have an objection to it being admitted. I just  
 3 would -- with the qualification that obviously I  
 4 think the purpose of the stipulation or the relevance  
 5 to this proceeding is simply the proposition as to  
 6 whether the company made any agreements or  
 7 commitments in that case or that stipulation that are  
 8 inconsistent with its positions in this case.

9 And not for, you know, just the normal  
 10 caveats that go with a stipulation relative to  
 11 precedents or relying on individual terms as  
 12 precedent.

13 EXAMINER PARROT: Does any other party  
 14 have an objection to the admission of FES Exhibit  
 15 106?

16 All right. Thank you for that  
 17 understanding, Mr. Nourse. The exhibit will be  
 18 admitted.

19 (EXHIBIT ADMITTED INTO EVIDENCE.)

20 MR. NOURSE: Okay. No. 107 I believe is  
 21 the transcript excerpt Volume III from the ETP; is  
 22 that correct? I'm sorry, is that IEU? No.

23 EXAMINER PARROT: That's FES, that's  
 24 correct.

25 MR. NOURSE: Correct? Okay. I believe

1 on this exhibit, your Honor, the only passage that  
2 was referenced was read into the record, questions  
3 were asked and answered about it. I don't think  
4 there's any purpose of the exhibit and all the other  
5 material in the exhibit beyond what's already in the  
6 record based on cross-examination, so I would oppose  
7 the admission on that basis.

8 EXAMINER PARROT: Mr. Lang?

9 MR. LANG: Your Honor, it's provided and  
10 marked as an exhibit for the convenience of the  
11 Commission. Another option would have been to ask  
12 the Commission to take administrative notice. This  
13 has actually been done previously actually in AEP's  
14 4 percent case.

15 The same thing was done with testimony of  
16 a prior witness in a prior proceeding was marked and  
17 admitted, actually I believe by Hearing Examiner See.  
18 And there was sections that are included in this  
19 exhibit the pages that are included here are both the  
20 subject matter in which I cross-examined him and the  
21 testimony that he identified provides the context of  
22 his testimony on the stranded costs in that  
23 proceeding, which as Mr. Nourse was clarify --  
24 clarifying reminding is an issue as to what the  
25 commitment was, what the -- what the -- what the



1 meaning of the stipulation and Mr. Munczinski's  
2 testimony was as further described in his testimony.

3 That's why we've excerpted this portion,  
4 so that the Commission has it available and can be --  
5 can easily find it instead of having to go back to  
6 this record from 13 years ago.

7 MR. NOURSE: Your Honor, I, just briefly,  
8 I mean this, again, FES is the one that prepared this  
9 excerpt and we hadn't seen it until today. The  
10 portions that were asked about were clearly discussed  
11 in the record independent of this record.

12 Sure, there are times when documents from  
13 prior cases are administratively noticed for various  
14 reasons but -- but, again, this is an excerpt they  
15 prepared and there could have been other -- there  
16 could have been other portions of this.

17 I think it's a 173-page transcript and so  
18 I believe they were -- they availed themselves of the  
19 benefit of asking questions about the witness and the  
20 testimony fully addressed it. There's no need to put  
21 the -- put the exhibit in beyond that.

22 MR. LANG: Your Honors, if they have an  
23 issue with other sections of the transcript, we  
24 certainly don't have an issue with them referring to  
25 those other sections of the transcript and asking for

1 administrative notice but for purposes of this  
2 witness's testimony many years ago on stranded costs,  
3 this is the section of his testimony dealing with  
4 stranded costs.

5 EXAMINER PARROT: Are there any other  
6 objections to the admission of the exhibit from any  
7 of the other parties?

8 All right. FES Exhibit 107 shall be  
9 admitted into the record.

10 (EXHIBIT ADMITTED INTO EVIDENCE.)

11 MR. NOURSE: Thank you, your Honor. No  
12 objection to 108 which was the discovery  
13 interrogatory 4-5 and following.

14 EXAMINER PARROT: Any objections from any  
15 of the other parties?

16 Seeing none, FES Exhibit 108 is admitted.

17 (EXHIBIT ADMITTED INTO EVIDENCE.)

18 EXAMINER PARROT: Mr. Darr.

19 MR. DARR: Thank you, your Honor, move  
20 the admission of 103 through 108.

21 EXAMINER PARROT: Are there any  
22 objections to the admissions of Exhibits 103 through  
23 108?

24 MR. NOURSE: And if you don't mind, your  
25 Honor, we would like to use the same procedure here.

1 EXAMINER PARROT: Very good.

2 MR. NOURSE: Can I clarify one thing on  
3 the 10-K was the unexcerpted copy marked as an  
4 exhibit?

5 MR. DARR: Yes.

6 MR. NOURSE: I'm sorry, did you say "no"?

7 MR. DARR: Yes.

8 MR. NOURSE: What was it? Because we  
9 have 104 as being the excerpted copy.

10 MR. DARR: The version that was handed  
11 out was a -- was a cut-down version but the version  
12 that's marked and in front of the witness was the  
13 full version.

14 MR. NOURSE: Okay. So, your Honor, I  
15 think on -- well, let me -- sorry, we are getting  
16 organized -- start with 103. I believe that was the  
17 first exhibit, Mr. Baker's testimony in the ESP I  
18 proceeding.

19 Again, very limited cross. It was  
20 targeted to I believe one page, and it was read into  
21 the record and fully discussed. I don't think  
22 dumping the entire testimony from the prior  
23 proceeding into this record is appropriate. Object  
24 on that basis.

25 EXAMINER PARROT: Response.

1 MR. DARR: Your Honor, the document was  
2 prepared and presented to the witness for the purpose  
3 of identification and assistance in explaining to the  
4 Commission the nature of the company's position in  
5 the ESP I.

6 The fact that there was one specific  
7 reference used from it I have no way to respond to  
8 that, your Honor. It's not a proper objection. The  
9 objection would be as to relevance or identification  
10 or some other matter that hasn't been raised here.

11 MR. NOURSE: No, your Honor, if I can  
12 respond, you know, just dumping in testimony from a  
13 prior proceeding, you know, it's one thing if it was  
14 the same witness and they had specific questions  
15 about it. It's a different witness, Mr. Munczinski  
16 stated he was not familiar with the testimony.

17 And, you know, who knows what shows up on  
18 brief if you just start incorporating things from  
19 prior proceedings that involve different issues, so  
20 it is -- it is inappropriate. Note my objection.

21 MR. DARR: The objection goes to weight,  
22 your Honor. It does not go to relevance or otherwise  
23 to its admissibility.

24 EXAMINER PARROT: Anything from any of  
25 the other parties?

1                   Thank you, both. IEU Exhibit 103 shall  
2 be admitted into the record.

3                   (EXHIBIT ADMITTED INTO EVIDENCE.)

4                   MR. NOURSE: Okay. Thank you, we will  
5 keep that in mind, your Honor.

6                   IEU Exhibit 104, I guess two different  
7 versions of this. I would object to, you know, using  
8 this 390-page document as -- as evidence in this  
9 proceeding.

10                  There were four pages out of 390 that  
11 were discussed. They are replicated in the excerpt  
12 and we would have no objection to the excerpted  
13 version being admitted.

14                  EXAMINER PARROT: Mr. Darr, do you have  
15 any response to that?

16                  MR. DARR: I think it's appropriate that  
17 the Commission admit the exhibit in total. We've  
18 heard -- we've heard it both ways from AEP in various  
19 proceedings: When we excerpt we're creating  
20 exhibits; when we give them the whole thing, we're  
21 told it's too much.

22                  The exhibit is what it is. It is a  
23 document. It is a document prepared by AEP Ohio. It  
24 has been identified in -- as a full document. There  
25 is no reason to simply admit the excerpt.

1 MR. NOURSE: Your Honor, you know, I  
2 disagree with the characterization -- generalization  
3 that somehow that every time it's an excerpt, every  
4 time it's a full document there should be some  
5 generic response.

6 Of course, it depends on the issue in the  
7 document, the witness' knowledge, you know, and so  
8 what I'm saying here is that there were -- it's a  
9 390-page, very small font document. There's tons of  
10 information in here. Not sure any of it's relevant  
11 that hasn't been demonstrated, and the only four  
12 pages that were discussed are in the excerpted  
13 exhibit so in that context I think it's appropriate  
14 to use the excerpted exhibit.

15 EXAMINER PARROT: Anything from any of  
16 the other parties?

17 Okay, the excerpted version of IEU  
18 Exhibit 104 shall be admitted into the record.

19 (EXHIBIT ADMITTED INTO EVIDENCE.)

20 MR. NOURSE: Thank you, your Honor.

21 IEU Exhibit 105 I believe is the reply  
22 comments from the 00-796/797 case. These are the  
23 reply comments that cross-examine --  
24 cross-examination was not permitted based on this  
25 and, therefore, the exhibit should not be admitted.

1 EXAMINER PARROT: Mr. Darr.

2 MR. DARR: This is an interesting  
3 problem, your Honor. The document presented to the  
4 Commission is self-authenticating, it's a Commission  
5 record. The relevance of the document was  
6 established actually repeatedly by Mr. Munczinski  
7 both before and after the cross-examination was  
8 limited by a ruling from the Bench.

9 In fact, I believe Mr. Munczinski went  
10 into a detailed discussion and at one point I  
11 objected and withdrew my objection for the very  
12 reason that I knew we would come to this point.

13 Given that the document is  
14 self-authenticating that would be grounds for  
15 avoiding any problems with regard to identification.  
16 The relevance was established by subsequent testimony  
17 by Mr. Munczinski and probably prior testimony as  
18 well.

19 In any case, the Commission in this  
20 instance has previously taken administrative notice  
21 of this document in the ESP II proceeding on the  
22 stipulation. So let me offer that as an alternative  
23 grounds for allowing this to become part of the  
24 record simply by administrative notice.

25 MR. NOURSE: Your Honor, first of all,

1 the authentication of the document is not in question  
2 and not raised as an objection. The relevance is the  
3 question.

4 The -- the IEU is not permitted to ask  
5 questions about it. I don't see how they can come in  
6 without any record support at the end of  
7 cross-examination and just come up with a document  
8 that's from a prior Commission proceeding without  
9 having asked any questions about it.

10 And with respect to Mr. Munczinski's  
11 statement, he was referring to the ETP case and had  
12 no reference to this case, the 07-796 or 797 cases  
13 were not referenced anywhere in the testimony today.  
14 There was no foundation or basis to include it as an  
15 exhibit.

16 EXAMINER PARROT: Anything from any of  
17 the other parties?

18 The Bench is going to defer admission of  
19 IEU Exhibit No. 105.

20 MR. NOURSE: Thank you, your Honor.

21 I believe with respect to the remaining  
22 three exhibits, testimony from the ETP Case 106, '07,  
23 '08, there are no objections from the company.

24 EXAMINER PARROT: Any objections from any  
25 of the other parties to the remaining exhibits from



1 IEU?

2 Seeing none, IEU Exhibits 106, 107, and  
3 108 are admitted into the record.

4 (EXHIBITS ADMITTED INTO EVIDENCE.)

5 EXAMINER PARROT: And Mr. Kurtz.

6 MR. KURTZ: Your Honor, thank you. For  
7 admission of OMG Exhibit 101.

8 EXAMINER PARROT: Any objection to the  
9 admission of OEG Exhibit 101?

10 MR. NOURSE: No, your Honor.

11 EXAMINER PARROT: Anything from the other  
12 parties?

13 Seeing none, OEG Exhibit 101 is admitted  
14 into the record.

15 (EXHIBIT ADMITTED INTO EVIDENCE.)

16 EXAMINER PARROT: Let's go off the  
17 record.

18 (Discussion off the record.)

19 EXAMINER PARROT: Let's go back on the  
20 record.

21 I believe that we are done for the day.  
22 We will reconvene tomorrow in Hearing Room 11A at  
23 8:30 a.m. We are adjourned.

24 EXAMINER SEE: Mr. Munczinski, thank you  
25 very much. Your testimony is concluded.

1 (Thereupon, the hearing was adjourned at  
2 5:16 p.m.)

3 - - -

4 CERTIFICATE

5 I do hereby certify that the foregoing is  
6 a true and correct transcript of the proceedings  
7 taken by me in this matter on Tuesday, April 17,  
8 2012, and carefully compared with my original  
9 stenographic notes.

10  
11 \_\_\_\_\_  
12 Karen Sue Gibson, Registered  
13 Merit Reporter.

14 (KSG-5511)

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Summary: Transcript of Commission Review of the Capacity Charges of Ohio Power Company and Columbus Southern Power Company hearing held on 04/17/12 - Volume I electronically filed by Mrs. Jennifer Duffer on behalf of Armstrong & Okey, Inc. and Gibson, Karen Sue Mrs.